

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 September 30, 2023

OR

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

Commission File Number: 000-38728

AVALON GLOBOCARE CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**4400 Route 9 South, Suite 3100
Freehold, New Jersey**

(Address of principal executive offices)

No. 47--1685128

(I.R.S. Employer

Identification No.)

07728

(Zip Code)

(732) 780-4400

(Registrant's telephone number, including area code)

Not Applicable

(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, par value \$0.0001 per share	ALBT	The Nasdaq Capital Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 14, 2023, 10,999,534 shares of common stock, \$0.0001 par value per share, were outstanding.

AVALON GLOBOCARE CORP.

FORM 10-Q

For the Quarterly Period Ended September 30, 2023

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30,	December 31,
	2023	2022
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 341,771	\$ 1,990,910
Rent receivable	116,665	134,626
Prepaid expense and other current assets	<u>405,599</u>	<u>247,990</u>
Total Current Assets	<u>864,035</u>	<u>2,373,526</u>
NON-CURRENT ASSETS:		
Operating lease right-of-use assets, net	154,854	10,885
Property and equipment, net	40,334	138,294
Investment in real estate, net	7,233,575	7,360,087
Equity method investments, net	21,370,060	485,008
Advances for equity interest purchase	-	8,999,722
Other non-current assets	<u>304,323</u>	<u>384,383</u>
Total Non-current Assets	<u>29,103,146</u>	<u>17,378,379</u>
Total Assets	<u>\$ 29,967,181</u>	<u>\$ 19,751,905</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accrued professional fees	\$ 1,730,232	\$ 1,673,411
Accrued research and development fees	891,751	838,001
Accrued payroll liability and compensation	385,754	223,722
Accrued litigation settlement	450,000	450,000
Accrued liabilities and other payables	383,287	283,234
Accrued liabilities and other payables - related parties	159,481	100,000
Operating lease obligation	124,438	11,437
Equity method investment payable	1,000,000	-
Derivative liability	41,048	-
Convertible note payable, net	<u>1,525,834</u>	<u>-</u>
Total Current Liabilities	<u>6,691,825</u>	<u>3,579,805</u>
NON-CURRENT LIABILITIES:		
Operating lease obligation - noncurrent portion	36,416	-
Accrued litigation settlement - noncurrent portion	-	450,000
Note payable, net	5,566,412	4,563,152
Loan payable - related party	<u>850,000</u>	<u>-</u>
Total Non-current Liabilities	<u>6,452,828</u>	<u>5,013,152</u>
Total Liabilities	<u>13,144,653</u>	<u>8,592,957</u>
Commitments and Contingencies (Note 15)		
EQUITY:		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized;		
Series A Convertible Preferred Stock, 9,000 shares issued and outstanding at September 30, 2023 and December 31, 2022.		
Liquidation preference \$9 million at September 30, 2023	9,000,000	9,000,000
Series B Convertible Preferred Stock, 11,000 and 0 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively. Liquidation preference \$11 million at September 30, 2023		
	11,000,000	-
Common stock, \$0.0001 par value; 490,000,000 shares authorized; 10,981,534 shares issued and 10,929,534 shares outstanding at September 30, 2023; 10,013,576 shares issued and 9,961,576 shares outstanding at December 31, 2022		
	1,098	1,005
Additional paid-in capital	67,781,112	65,949,723
Less: common stock held in treasury, at cost; 52,000 shares at September 30, 2023 and December 31, 2022	(522,500)	(522,500)
Accumulated deficit	(70,214,597)	(63,062,721)
Statutory reserve	6,578	6,578
Accumulated other comprehensive loss	<u>(229,163)</u>	<u>(213,137)</u>

Total Avalon GloboCare Corp. stockholders' equity	<u>16,822,528</u>	<u>11,158,948</u>
Non-controlling interest	<u>-</u>	<u>-</u>
Total Equity	<u>16,822,528</u>	<u>11,158,948</u>
Total Liabilities and Equity	<u>\$ 29,967,181</u>	<u>\$ 19,751,905</u>

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
RENTAL REVENUE	\$ 331,290	\$ 317,390	\$ 934,360	\$ 905,842
OPERATING EXPENSES	288,083	247,152	781,931	677,303
OPERATING INCOME	43,207	70,238	152,429	228,539
INCOME FROM EQUITY METHOD INVESTMENT - LAB SERVICES MSO	354,500	-	370,060	-
OTHER OPERATING EXPENSES:				
Advertising and marketing expenses	437,750	150,620	1,634,720	807,821
Professional fees	435,144	628,807	2,659,895	1,886,562
Compensation and related benefits	469,959	488,373	1,375,637	1,514,959
Research and development expenses	-	170,406	110,160	541,566
Litigation settlement	-	-	-	1,350,000
Other general and administrative expenses	195,990	221,131	704,908	687,243
Total Other Operating Expenses	1,538,843	1,659,337	6,485,320	6,788,151
LOSS FROM OPERATIONS	(1,141,136)	(1,589,099)	(5,962,831)	(6,559,612)
OTHER (EXPENSE) INCOME				
Interest expense - amortization of debt discount and debt issuance cost	(199,136)	(3,248,597)	(290,794)	(3,303,282)
Interest expense - other	(229,144)	(46,547)	(527,702)	(53,751)
Interest expense - related party	(10,712)	(8,358)	(23,000)	(79,898)
Conversion inducement expense	-	(344,264)	-	(344,264)
Loss from equity method investment - Epicon	-	(9,011)	(18,564)	(33,809)
Change in fair value of derivative liability	87,173	(168,520)	128,894	600,749
Impairment of equity method investment - Epicon	-	-	(464,406)	-
Other income	7,880	242	6,527	260,701
Total Other Expense, net	(343,939)	(3,825,055)	(1,189,045)	(2,953,554)
LOSS BEFORE INCOME TAXES	(1,485,075)	(5,414,154)	(7,151,876)	(9,513,166)
INCOME TAXES	-	-	-	-
NET LOSS	\$ (1,485,075)	\$ (5,414,154)	\$ (7,151,876)	\$ (9,513,166)
LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	-	-
NET LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS	\$ (1,485,075)	\$ (5,414,154)	\$ (7,151,876)	\$ (9,513,166)
COMPREHENSIVE LOSS:				
NET LOSS	\$ (1,485,075)	\$ (5,414,154)	\$ (7,151,876)	\$ (9,513,166)
OTHER COMPREHENSIVE LOSS				
Unrealized foreign currency translation loss	(8,685)	(37,033)	(16,026)	(78,515)
COMPREHENSIVE LOSS	(1,493,760)	(5,451,187)	(7,167,902)	(9,591,681)
LESS: COMPREHENSIVE LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	-	-
COMPREHENSIVE LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS	\$ (1,493,760)	\$ (5,451,187)	\$ (7,167,902)	\$ (9,591,681)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS:				
Basic and diluted	\$ (0.14)	\$ (0.56)	\$ (0.69)	\$ (1.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	10,795,489	9,703,603	10,372,447	9,152,168

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months Ended September 30, 2023
(Unaudited)

	Avalon GloboCare Corp. Stockholders' Equity														
	Series A		Series B				Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Statutory Reserve	Accumulated Other		Non-controlling Interest	Total Equity
	Preferred Stock		preferred Stock		Common Stock			Number of Shares	Amount			Comprehensive Loss	Total		
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount									
Balance, January 1, 2023	9,000	\$ 9,000,000	-	\$ -	10,013,576	\$ 1,005	\$ 65,949,723	(52,000)	\$ (522,500)	\$ (63,062,721)	\$ 6,578	\$ (213,137)	\$ -	\$ 11,158,948	
Issuance of Series B Convertible Preferred Stock for equity method investment	-	-	11,000	11,000,000	-	-	-	-	-	-	-	-	-	11,000,000	
Issuance of common stock for services	-	-	-	-	202,731	21	463,355	-	-	-	-	-	-	463,376	
Stock-based compensation	-	-	-	-	-	-	68,262	-	-	-	-	-	-	68,262	
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	3,670	-	3,670	
Net loss for the three months ended March 31, 2023	-	-	-	-	-	-	-	-	-	(2,919,744)	-	-	-	(2,919,744)	
Balance, March 31, 2023	9,000	9,000,000	11,000	11,000,000	10,216,307	1,026	66,481,340	(52,000)	(522,500)	(65,982,465)	6,578	(209,467)	-	19,774,512	
To correct shares issued for adjustments for 1:10 reverse split	-	-	-	-	50,000	1	(1)	-	-	-	-	-	-	-	
Issuance of common stock for services	-	-	-	-	158,600	16	536,264	-	-	-	-	-	-	536,280	
Issuance of common stock as convertible note payable commitment fee	-	-	-	-	75,000	7	146,993	-	-	-	-	-	-	147,000	
Stock-based compensation	-	-	-	-	-	-	112,015	-	-	-	-	-	-	112,015	
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	(11,011)	-	(11,011)	
Net loss for the three months ended June 30, 2023	-	-	-	-	-	-	-	-	-	(2,747,057)	-	-	-	(2,747,057)	
Balance, June 30, 2023	9,000	9,000,000	11,000	11,000,000	10,499,907	1,050	67,276,611	(52,000)	(522,500)	(68,729,522)	6,578	(220,478)	-	17,811,739	
Sale of common stock, net	-	-	-	-	456,627	46	414,350	-	-	-	-	-	-	414,396	
Issuance of common stock as convertible note payable commitment fee	-	-	-	-	25,000	2	35,498	-	-	-	-	-	-	35,500	
Stock-based compensation	-	-	-	-	-	-	54,653	-	-	-	-	-	-	54,653	
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	(8,685)	-	(8,685)	
Net loss for the three months ended September 30, 2023	-	-	-	-	-	-	-	-	-	(1,485,075)	-	-	-	(1,485,075)	
Balance, September 30, 2023	9,000	\$ 9,000,000	11,000	\$ 11,000,000	10,981,534	\$ 1,098	\$ 67,781,112	(52,000)	\$ (522,500)	\$ (70,214,597)	\$ 6,578	\$ (229,163)	\$ -	\$ 16,822,528	

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months Ended September 30, 2022
(Unaudited)

	Avalon GloboCare Corp. Stockholders' Equity												
	Preferred Stock		Common Stock		Common				Accumulated			Non-controlling Interest	Total Equity
	Number of Shares	Amount	Number of Shares	Amount	Stock to be Issued	Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Statutory Reserve	Other Comprehensive Loss		
						Number of Shares	Amount						
Balance, January 1, 2022	-	\$ -	8,897,517	\$ 890	\$ -	\$ 54,896,567	(52,000)	\$ (522,500)	\$ (51,131,874)	\$ 6,578	\$ (165,266)	\$ -	\$ 3,084,395
Sale of common stock, net	-	-	17,064	2	-	112,326	-	-	-	-	-	-	112,328
Stock-based compensation	-	-	-	-	-	152,323	-	-	-	-	-	-	152,323
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	2,021	-	2,021
Net loss for the three months ended March 31, 2022	-	-	-	-	-	-	-	-	(2,070,538)	-	-	-	(2,070,538)
Balance, March 31, 2022	-	-	8,914,581	892	-	55,161,216	(52,000)	(522,500)	(53,202,412)	6,578	(163,245)	-	1,280,529
Warrants issued with convertible debt offering	-	-	-	-	-	498,509	-	-	-	-	-	-	498,509
Issuance of common stock for services	-	-	40,896	4	-	340,946	-	-	-	-	-	-	340,950
Stock-based compensation	-	-	-	-	-	126,301	-	-	-	-	-	-	126,301
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(43,503)	-	(43,503)
Net loss for the three months ended June 30, 2022	-	-	-	-	-	-	-	(2,028,474)	-	-	-	(2,028,474)	-
Balance, June 30, 2022	-	-	8,955,477	896	-	56,126,972	(52,000)	(522,500)	(55,230,886)	6,578	(206,748)	-	174,312
Conversion of convertible note payable and accrued interest into common stock	-	-	573,645	57	-	4,072,901	-	-	-	-	-	-	4,072,958
Reclassification of derivative liability to equity	-	-	-	-	-	2,181,820	-	-	-	-	-	-	2,181,820
Issuance of common stock for settlement of loan payable and accrued interest - related party	-	-	444,399	44	-	2,888,549	-	-	-	-	-	-	2,888,593
Sale of common stock - related party	-	-	-	-	350,000	-	-	-	-	-	-	-	350,000
Sale of common stock	-	-	-	-	250,000	-	-	-	-	-	-	-	250,000
Stock-based compensation	-	-	-	-	-	110,442	-	-	-	-	-	-	110,442
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(37,033)	-	(37,033)
Net loss for the three months ended September 30, 2022	-	-	-	-	-	-	-	-	(5,414,154)	-	-	-	(5,414,154)
Balance, September 30, 2022	-	\$ -	9,973,521	\$ 997	\$ 600,000	\$ 65,380,684	(52,000)	\$ (522,500)	\$ (60,645,040)	\$ 6,578	\$ (243,781)	\$ -	\$ 4,576,938

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended

	September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (7,151,876)	\$ (9,513,166)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt provision	-	2,295
Depreciation	167,390	250,553
Change in straight-line rent receivable	(7,227)	(19,581)
Amortization of operating lease right-of-use asset	89,731	101,980
Stock-based compensation and service expense	1,056,214	983,036
(Income) loss from equity method investments	(351,496)	33,809
Impairment of equity method investment	464,406	-
Amortization of debt issuance costs and debt discount	290,794	3,303,282
Conversion inducement expense	-	344,264
Change in fair market value of derivative liability	(128,894)	(600,749)
Changes in operating assets and liabilities:		
Rent receivable	31,848	(33,049)
Security deposit	398	(424)
Deferred leasing costs	25,051	18,947
Prepaid expense and other assets	(29,393)	(65,963)
Accounts payable	-	86,826
Accrued liabilities and other payables	(140,442)	63,089
Accrued liabilities and other payables - related parties	59,481	79,898
Operating lease obligation	(84,387)	(107,979)
NET CASH USED IN OPERATING ACTIVITIES	(5,708,402)	(5,072,932)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(22,171)	(1,749)
Additional investment in equity method investment	-	(52,994)
NET CASH USED IN INVESTING ACTIVITIES	(22,171)	(54,743)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable - related party	-	(390,000)
Proceeds from loan payable - related party	850,000	100,000
Repayments of loan payable - related party	-	(410,000)
Proceeds from issuance of convertible debt and warrants	1,900,000	3,718,943
Payments of convertible debt issuance costs	(210,500)	-
Proceeds from issuance of balloon promissory note	1,000,000	4,800,000
Payments of balloon promissory note issuance costs	(64,436)	(266,454)
Proceeds from equity offering	635,391	735,567
Disbursements for equity offering costs	(19,132)	(24,067)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,091,323	8,263,989
EFFECT OF EXCHANGE RATE ON CASH	(9,889)	(5,893)
NET (DECREASE) INCREASE IN CASH	(1,649,139)	3,130,421
CASH - beginning of period	1,990,910	807,538
CASH - end of period	\$ 341,771	\$ 3,937,959
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 442,222	\$ 44,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for future services	\$ 58,500	\$ 19,680
Common stock issued for accrued liabilities	\$ 164,871	\$ 30,000
Reclassification of advances for equity interest purchase to equity method investment	\$ 9,000,000	\$ -
Series B Convertible Preferred Stock issued related to equity method investment	\$ 11,000,000	\$ -
Accrued purchase price related to equity method investment	\$ 1,000,000	\$ -

Warrants issued as convertible note payable finder's fee	\$ 13,597	\$ -
Warrants issued with convertible note payable recorded as debt discount	\$ 156,345	\$ 498,509
Bifurcated embedded conversion feature recorded as derivative liability and debt discount	\$ -	\$ 2,782,569
Common stock issued as convertible note payable commitment fee	\$ 182,500	\$ -
Deferred financing costs in accrued liabilities	\$ 152,892	\$ -
Conversion of convertible note payable and accrued interest into common stock	\$ -	\$ 4,072,958
Reclassification of derivative liability to equity	\$ -	\$ 2,181,820
Related party loan and accrued interest settled in shares	\$ -	\$ 2,888,593

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — ORGANIZATION AND NATURE OF OPERATIONS

Avalon GloboCare Corp. (the “Company” or “ALBT”) is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on July 28, 2014. On October 19, 2016, the Company entered into and closed a Share Exchange Agreement with the shareholders of Avalon Healthcare System, Inc., a Delaware corporation (“AHS”), each of which were accredited investors (“AHS Shareholders”), pursuant to which the Company acquired 100% of the outstanding securities of AHS in exchange for 50,000,000 shares of the Company’s common stock (the “AHS Acquisition”). AHS was incorporated on May 18, 2015 under the laws of the State of Delaware.

For accounting purposes, AHS was the surviving entity. The transaction was accounted for as a recapitalization of AHS, pursuant to which AHS was treated as the accounting acquirer, surviving and continuing entity although the Company was the legal acquirer. The Company did not recognize goodwill or any intangible assets in connection with this transaction. Accordingly, the Company’s historical financial statements are those of AHS and its wholly owned subsidiary, Avalon (Shanghai) Healthcare Technology Co., Ltd. (“Avalon Shanghai”) immediately following the consummation of this reverse merger transaction. AHS owns 100% of the capital stock of Avalon Shanghai, which is a wholly foreign-owned enterprise organized under the laws of the People’s Republic of China (“PRC”). Avalon Shanghai was incorporated on April 29, 2016, had limited assets and was engaged in medical related consulting services for customers. Due to the winding down of the medical related consulting services in 2022, the Company decided to cease all operations of Avalon Shanghai and no longer has any material revenues or expenses in Avalon Shanghai. As a result, Avalon Shanghai is no longer an operating entity.

The Company is a commercial stage company dedicated to developing and delivering innovative, transformative, precision diagnostics and clinical laboratory services. The Company is establishing a leading role in the innovation of diagnostic testing, utilizing proprietary technology to deliver precise, genetics-driven results. The Company also provides laboratory services, offering a broad portfolio of diagnostic tests, including drug testing, toxicology, and a broad array of test services, from general bloodwork to anatomic pathology, and urine toxicology.

On February 7, 2017, the Company formed Avalon RT 9 Properties, LLC (“Avalon RT 9”), a New Jersey limited liability company. On May 5, 2017, Avalon RT 9 purchased a real property located in Township of Freehold, County of Monmouth, State of New Jersey, having a street address of 4400 Route 9 South, Freehold, NJ 07728. This property was purchased to serve as the Company’s world-wide headquarters for all corporate administration and operations. In addition, the property generates rental income. Avalon RT 9 owns this office building. Avalon RT 9’s business consists of the ownership and operation of the income-producing real estate property in New Jersey. As of September 30, 2023, the occupancy rate of the building is 89.4%.

On July 18, 2018, the Company formed a wholly owned subsidiary, Avactis Biosciences Inc. (“Avactis”), a Nevada corporation, which focuses on accelerating commercial activities related to cellular therapies as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others. Avactis is designed to integrate and optimize the Company’s global scientific and clinical resources to further advance the use of cellular therapies to treat certain cancers. Commencing on April 6, 2022, the Company owns 60% of Avactis and Arbele Biotherapeutics Limited (“Arbele Biotherapeutics”) owns 40% of Avactis. Avactis owns 100% of the capital stock of Avactis Nanjing Biosciences Ltd., a company incorporated in the PRC on May 8, 2020 (“Avactis Nanjing”), which only owns a patent and is not considered an operating entity.

On October 14, 2022, the Company formed a wholly owned subsidiary, Avalon Laboratory Services, Inc. (“Avalon Lab”), a Delaware company. On February 9, 2023, Avalon Lab purchased forty percent (40%) of the issued and outstanding equity interests of Laboratory Services MSO, LLC, a private limited company formed under the laws of the State of Delaware on September 6, 2019 (“Lab Services MSO”), and its subsidiaries. Lab Services MSO, through its two subsidiaries, Laboratory Services, LLC (“Lab Services LLC”) and Laboratory Services DME, LLC (“Lab Services DME”), is engaged in providing laboratory testing services.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — ORGANIZATION AND NATURE OF OPERATIONS (continued)

The accompanying condensed consolidated financial statements reflect the activities of the Company and each of the following entities:

Name of Subsidiary	Place and Date of Incorporation	Percentage of Ownership	Principal Activities
Avalon Healthcare System, Inc. ("AHS")	Delaware May 18, 2015	100% held by ALBT	Developing Avalon Cell and Avalon Rehab in United States of America ("USA")
Avalon RT 9 Properties LLC ("Avalon RT 9")	New Jersey February 7, 2017	100% held by ALBT	Owns and operates an income-producing real property and holds and manages the corporate headquarters
Avalon (Shanghai) Healthcare Technology Co., Ltd. ("Avalon Shanghai")	PRC April 29, 2016	100% held by AHS	Ceased operations and is not considered an operating entity
Genexosome Technologies Inc. ("Genexosome")	Nevada July 31, 2017	60% held by ALBT	No current activities to report, dormant
Avactis Biosciences Inc. ("Avactis")	Nevada July 18, 2018	60% held by ALBT	Patent holding company
Avactis Nanjing Biosciences Ltd. ("Avactis Nanjing")	PRC May 8, 2020	100% held by Avactis	Owns a patent and is not considered an operating entity
International Exosome Association LLC ("Exosome")	Delaware June 13, 2019	100% held by ALBT	No activity, dormant
Avalon Laboratory Services, Inc. ("Avalon Lab")	Delaware October 14, 2022	100% held by ALBT	Laboratory holding company with a 40% membership interest in Lab Services MSO

NOTE 2 — BASIS OF PRESENTATION AND GOING CONCERN CONDITION

Basis of Presentation

These interim condensed consolidated financial statements of the Company and its subsidiaries are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures necessary for a fair presentation of these interim condensed consolidated financial statements have been included. The results reported in the condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The accompanying condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). The Company's condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission on March 30, 2023.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 — BASIS OF PRESENTATION AND GOING CONCERN CONDITION (continued)

Going Concern

The Company is a commercial stage company dedicated to developing and delivering innovative, transformative, precision diagnostics and clinical laboratory services. The Company is establishing a leading role in the innovation of diagnostic testing, utilizing proprietary technology to deliver precise, genetics-driven results. The Company also provides laboratory services, offering a broad portfolio of diagnostic tests, including drug testing, toxicology, and a broad array of test services, from general bloodwork to anatomic pathology, and urine toxicology.

In addition, the Company owns commercial real estate that houses its headquarters in Freehold, New Jersey. The Company also has income from equity method investment through its forty percent (40%) interest in Lab Services MSO. These condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

As reflected in the accompanying condensed consolidated financial statements, the Company had a working capital deficit of approximately \$5,828,000 at September 30, 2023 and had incurred recurring net losses and generated negative cash flow from operating activities of approximately \$7,152,000 and \$5,708,000 for the nine months ended September 30, 2023, respectively.

The Company has a limited operating history and its continued growth is dependent upon the continuation of generating rental revenue from its income-producing real estate property in New Jersey and income from equity method investment through its forty percent (40%) interest in Lab Services MSO and obtaining additional financing to fund future obligations and pay liabilities arising from normal business operations. In addition, the current cash balance cannot be projected to cover the operating expenses for the next twelve months from the release date of this report. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital, implement its business plan, and generate significant revenues. There are no assurances that the Company will be successful in its efforts to generate significant revenues, maintain sufficient cash balance or report profitable operations or to continue as a going concern. The Company plans on raising capital through the sale of equity to implement its business plan. However, there is no assurance these plans will be realized and that any additional financings will be available to the Company on satisfactory terms and conditions, if any.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

There have been no changes to the Company's significant accounting policies described in the Company's 2022 Annual Report on Form 10-K filed with the SEC that have had a material impact on the Company's financial condition, and operating results.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in these estimates and assumptions may have a material impact on the condensed consolidated financial statements and accompanying notes. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

Significant estimates during the three and nine months ended September 30, 2023 and 2022 include the valuation of deferred tax assets and the associated valuation allowances, the valuation of stock-based compensation, the assumptions used to determine fair value of warrants and embedded conversion features of convertible note payable, and the fair value of the consideration given and assets acquired in the purchase of 40% of Lab Services MSO.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments and Fair Value Measurements

The Company adopted the guidance of Accounting Standards Codification (“ASC”) 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

- Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3-Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The fair value of the Company’s assets and liabilities, which qualify as financial instruments under ASC Topic 820, “Fair Value Measurement,” approximates the carrying amounts represented in the accompanying condensed consolidated financial statements, primarily due to their short-term nature.

Assets and liabilities measured at fair value on a recurring basis. Certain assets and liabilities are measured at fair value on a recurring basis. These assets and liabilities are measured at fair value on an ongoing basis. These assets and liabilities include derivative liability.

Derivative liability. Derivative liability is carried at fair value and measured on an ongoing basis. The table below reflects the activity of derivative liability measured at fair value for the nine months ended September 30, 2023:

	Significant Unobservable Inputs (Level 3)
Balance of derivative liability as of January 1, 2023	\$ -
Initial fair value of derivative liability attributable to warrants issuance with fund raise	169,942
Gain from change in the fair value of derivative liability	(128,894)
Balance of derivative liability as of September 30, 2023	\$ 41,048

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. These assets and liabilities can include equity method investment that are written down to fair value when they are impaired.

Equity method investment in Epicon Biotech Co., Ltd. The factors used to determine fair value are subject to management’s judgment and expertise and include, but are not limited to, the investee’s series of operating losses and the joint venture partner unable to obtain funds to commence operations. These assumptions represent Level 3 inputs. Impairment of equity method investment in Epicon Biotech Co., Ltd. for the nine months ended September 30, 2023 was \$464,406.

ASC 825-10 “Financial Instruments”, allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

At September 30, 2023 and December 31, 2022, the Company's cash balances by geographic area were as follows:

Country:	September 30,		December 31,	
	2023		2022	
United States	\$ 321,899	94.2%	\$ 1,806,083	90.7%
China	19,872	5.8%	184,827	9.3%
Total cash	<u>\$ 341,771</u>	<u>100.0%</u>	<u>\$ 1,990,910</u>	<u>100.0%</u>

For purposes of the condensed consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less when purchased and money market accounts to be cash equivalents. The Company had no cash equivalents at September 30, 2023 and December 31, 2022.

Credit Risk and Uncertainties

A portion of the Company's cash is maintained with state-owned banks within the PRC. Balances at state-owned banks within the PRC are covered by insurance up to RMB 500,000 (approximately \$69,000) per bank. Any balance over RMB 500,000 per bank in PRC will not be covered. At September 30, 2023, cash balances held in the PRC are RMB 144,963 (approximately \$20,000), which was covered by such limited insurance.

The Company maintains a portion of its cash on deposits with bank and financial institution within the U.S. that at times may exceed federally-insured limits of \$250,000. The Company manages this credit risk by concentrating its cash balances in high quality financial institutions and by periodically evaluating the credit quality of the primary financial institutions holding such deposits. The Company has not experienced any losses in such bank accounts and believes it is not exposed to any risks on its cash in bank accounts. At September 30, 2023, the Company's cash balances in United States bank accounts had approximately \$25,000 in excess of the federally-insured limits.

The Company's concentrations of credit risk with respect to its rent receivable is limited due to short-term payment terms. The Company also performs ongoing credit evaluations of its tenants to help further reduce credit risk.

Investment in Unconsolidated Companies

The Company uses the equity method of accounting for its investments in, and earning or loss of, companies that it does not control but over which it does exert significant influence. The Company considers whether the fair values of its equity method investments have declined below their carrying values whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write-down would be recorded to estimated fair value. Impairment of equity method investment amounted to \$464,406 for the nine months ended September 30, 2023. See Note 5 for discussion of equity method investments.

Real Property Rental Revenue

The Company has determined that ASC 606 does not apply to rental contracts, which are within the scope of other revenue recognition accounting standards.

Rental income from operating leases is recognized on a straight-line basis under the guidance of ASC 842. Lease payments under tenant leases are recognized on a straight-line basis over the term of the related leases. The cumulative difference between lease revenue recognized under the straight-line method and contractual lease payments are included in account receivable on the consolidated balance sheets.

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commitments and Contingencies

In the normal course of business, the Company is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Per Share Data

ASC Topic 260 “Earnings per Share,” requires presentation of both basic and diluted earnings per share (“EPS”) with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. For the three and nine months ended September 30, 2023 and 2022, potentially dilutive common shares consist of the common shares issuable upon the conversion of convertible preferred stock and convertible note (using the if-converted method) and exercise of common stock options and warrants (using the treasury stock method). Common stock equivalents are not included in the calculation of diluted net loss per share if their effect would be anti-dilutive. In a period in which the Company has a net loss, all potentially dilutive securities are excluded from the computation of diluted shares outstanding as they would have had an anti-dilutive impact.

The following table summarizes the securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Options to purchase common stock	872,303	814,500	872,303	838,500
Warrants to purchase common stock	303,962	123,964	303,962	123,964
Series A convertible preferred stock (*)	900,000	-	900,000	-
Series B convertible preferred stock (**)	2,910,053	-	2,910,053	-
Convertible note (***)	444,444	572,145	444,444	572,145
Potentially dilutive securities	<u>5,430,762</u>	<u>1,510,609</u>	<u>5,430,762</u>	<u>1,534,609</u>

(*) Assumed the Series A convertible preferred stock was converted into shares of common stock of the Company at a conversion price of \$10.0 per share.

(**) Assumed the Series B convertible preferred stock was converted into shares of common stock of the Company at a conversion price of \$3.78 per share.

(***) Assumed the convertible note was converted into shares of common stock of the Company at a conversion price of \$4.50 and \$0.65 per share for the 2023 and 2022 periods, respectively.

Segment Reporting

The Company uses “the management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. The Company’s chief operating decision maker is the Chief Executive Officer (“CEO”) and president of the Company, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company.

During the three and nine months ended September 30, 2022, the Company operated in two reportable business segments - (1) the real property operating segment, and (2) the medical related consulting services segment. These reportable segments offer different services and products, have different types of revenue, and are managed separately as each requires different operating strategies and management expertise. Due to the winding down of the medical related consulting services segment in 2022, the Company decided to cease all operations of this segment and no longer has any material revenues or expenses in this segment. As a result, commencing from the first quarter of 2023, the Company’s chief operating decision maker no longer reviews medical related consulting services operating results.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Reporting (continued)

On February 9, 2023, the Company purchased 40% of Lab Services MSO. Commencing from the purchase date, February 9, 2023, the Company is active in the management of Lab Services MSO. During the three and nine months ended September 30, 2023, the Company operated in two reportable business segments: (1) the real property operating segment, and (2) laboratory testing services segment (which commenced with the purchase date, February 9, 2023) since Lab Services MSO's operating results are regularly reviewed by the Company's chief operating decision maker to determine the resources to be allocated to the segment and assess its performance. The Company regularly reviews the operating results and performance of Lab Services MSO, for which the Company accounts for under the equity method.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have no effect on the previously reported financial position, results of operations and cash flows.

Reverse Stock Split

The Company effected a one-for-ten reverse stock split of its outstanding shares of common stock on January 5, 2023. The reverse split did not change the number of authorized shares of common stock or par value. All references in these condensed consolidated financial statements to shares, share prices, exercise prices, and other per share information in all periods have been adjusted, on a retroactive basis, to reflect the reverse stock split.

Recent Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("Topic 326"). The ASU introduces a new accounting model, the Current Expected Credit Losses model ("CECL"), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. ASU 2016-13 is effective for annual period beginning after December 15, 2022, including interim reporting periods within those annual reporting periods. The adoption of this new guidance did not have any material impact on the Company's condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends the accounting related to contract assets and liabilities acquired in business combinations. ASU 2021-08 requires that entities recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC Topic 606, Revenue from Contracts with Customers. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and should be applied prospectively to business combinations occurring on or after the effective date of the amendment. Early adoption is permitted, including adoption in an interim period. The adoption of this new guidance did not have any material impact on the Company's condensed consolidated financial statements.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its consolidated financial condition, results of operations, cash flows or disclosures.

NOTE 4 — PREPAID EXPENSE AND OTHER CURRENT ASSETS

At September 30, 2023 and December 31, 2022, prepaid expense and other current assets consisted of the following:

	September 30,	December 31,
	2023	2022
Prepaid professional fees	\$ 112,393	\$ 93,817
Prepaid directors and officers liability insurance premium	25,862	29,301
Prepaid NASDAQ listing fee	25,313	-
Deferred offering costs	125,136	34,821
Deferred leasing costs	33,402	33,402
Security deposit	-	19,084
Others	83,493	37,565
Total	<u>\$ 405,599</u>	<u>\$ 247,990</u>

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 — EQUITY METHOD INVESTMENTS

Investment in Epicon Biotech Co., Ltd.

As of September 30, 2023 and December 31, 2022, the equity method investment in Epicon Biotech Co., Ltd. (“Epicon”) amounted to \$0 and \$485,008, respectively. The investment represents the Company’s subsidiary, Avalon Shanghai’s interest in Epicon. Epicon was incorporated on August 14, 2018 in PRC. Avalon Shanghai and an unrelated company, Jiangsu Unicorn Biological Technology Co., Ltd. (“Unicorn”), have an ownership interest in Epicon of 40% and 60%, respectively. Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and clinical transformation of scientific achievements. The Company is not involved in the management of Epicon. Therefore, it is a passive investment.

In June 2023, the Company assessed its equity method investment in Epicon for any impairment and concluded that there were indicators of impairment as of June 30, 2023. The impairment is due to the Company’s conclusion that it will be unable to recover the carrying amount of the investment due to the investee’s series of operating losses and the inability of Avalon Shanghai’s joint venture partner (Unicorn) to obtain adequate funding to commence operations. The Company calculated that the estimated undiscounted cash flows were less than the carrying amount related to the equity method investment. The Company has recognized an impairment loss of \$464,406 related to the equity method investment for the three and nine months ended September 30, 2023, which reduced the investment value to zero.

Under the equity method, if there is a commitment for the Company to fund the losses of its equity method investees, the Company would continue to record its share of losses resulting in a negative equity method investment, which would be presented as a liability on the condensed consolidated balance sheets. Commitments may be explicit and may include formal guarantees, legal obligations, or arrangements by contract. Implicit commitments may arise from reputational expectations, intercompany relationships, statements by the Company of its intention to provide support, a history of providing financial support or other facts and circumstances. When the Company has no commitment to fund the losses of its equity method investees, the carrying value of its equity method investments will not be reduced below zero. The Company had no commitment to fund additional losses of its equity method investments during the three months ended September 30, 2023.

Investment in Laboratory Services MSO, LLC

On February 9, 2023 (the “Closing Date”), the Company entered into and closed an Amended and Restated Membership Interest Purchase Agreement (the “Amended MIPA”), by and among Avalon Laboratory Services, Inc., a wholly owned subsidiary of the Company (the “Buyer”), SCBC Holdings LLC (the “Seller”), the Zoe Family Trust, Bryan Cox and Sarah Cox as individuals (each an “Owner” and collectively, the “Owners”), and Laboratory Services MSO, LLC

Pursuant to the terms and conditions set forth in the Amended MIPA, the Buyer acquired from the Seller, forty percent (40%) of the issued and outstanding equity interests of Lab Services MSO (the “Purchased Interests”). The consideration paid by Buyer to Seller for the Purchased Interests consisted of \$21,000,000, which was comprised of (i) \$9,000,000 in cash, (ii) \$11,000,000 pursuant to the issuance of 11,000 shares of the Company’s Series B Convertible Preferred Stock (the “Series B Preferred Stock”), stated value \$1,000 (the “Series B Stated Value”), and (iii) a \$1,000,000 cash payment on February 9, 2024. The Series B Preferred Stock will be convertible into shares of the Company’s common stock at a conversion price per share equal to \$3.78 or an aggregate of 2,910,053 shares of the Company’s common stock, which are subject to a lock-up period and restrictions on sale (See Note 10 — Series B Convertible Preferred Stock Issued for Equity Method Investment). The Seller is also eligible, under the terms set forth in the Amended MIPA, to receive certain earnout payments upon achievement of certain operating results, up to \$10,000,000, which may be comprised of (x) up to \$5,000,000 paid in cash and (y) up to \$5,000,000 paid pursuant to the issuance of the number of shares of the Company’s common stock valued at \$5,000,000, calculated using the closing price of the Company’s common stock on December 31, 2023, rounded down to the nearest whole share (collectively, the “Earnout Payments”). At both February 9, 2023 and September 30, 2023, the estimated earnout liability amounted to \$0 since the minimum thresholds set forth in the Amended MIPA are currently unlikely to be met. The estimated earnout is a level 3 valuation which will be measured at the end of the applicable reporting period.

Lab Services MSO, through its two subsidiaries, Lab Services LLC and Lab Services DME, is engaged in providing laboratory testing services. Avalon Lab and an unrelated company, have an ownership interest in Lab Services MSO of 40% and 60%, respectively. As of September 30, 2023, the equity method investment in Lab Services MSO amounted to \$21,370,060.

In accordance with ASC 810, the Company determined that Lab Services MSO does not qualify as a Variable Interest Entity, nor does it have a controlling financial interest over the legal entity. However, the Company determined that it does have significant influence as a result of its board representation. Therefore, the Company treats the equity investment in the condensed consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Company’s share of the purchased-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). At February 9, 2023 (date of investment), the excess of the Company’s share of the fair values of the investee’s identifiable net assets over the cost of the investment was approximately \$19,901,000 which was attributable to intangible assets and goodwill. Thereafter, the investment is adjusted for the post purchase change in the Company’s share of the investee’s net assets and any impairment loss relating to the investment.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 — EQUITY METHOD INVESTMENTS (continued)

Investment in Laboratory Services MSO, LLC (continued)

For the three months ended September 30, 2023 and the period from February 9, 2023 (date of investment) through September 30, 2023, the Company's share of Lab Services MSO's net income was \$354,500 and \$370,060, respectively, which was included in income from equity method investment — Lab Services MSO in the accompanying condensed consolidated statements of operations and comprehensive loss.

In the nine months ended September 30, 2023, activity recorded for the Company's equity method investment in Lab Services MSO is summarized in the following table:

Equity investment carrying amount at January 1, 2023	\$	-
Payment for equity method investment:		
The Company's interest in the net assets of Lab Services MSO's carrying amount at February 9, 2023 which approximates fair value		1,099,387
The Company's interest in the net excess of Lab Services MSO's fair value over carrying value which was attributable to identifiable intangible assets at February 9, 2023		5,970,184
The Company's interest in the net excess of Lab Services MSO's fair value over carrying value which was attributable to goodwill at February 9, 2023		13,930,429
		<u>21,000,000</u>
Lab Services MSO's net income attributable to the Company		913,378
Intangible assets amortization amount		(543,318)
Equity investment carrying amount at September 30, 2023	\$	<u><u>21,370,060</u></u>

As of September 30, 2023, the Company's carrying value of the identified intangible assets and goodwill which are included in the equity investment carrying amount was \$5,426,866 and \$13,930,429, respectively.

The tables below present the summarized financial information, as provided to the Company by the investee, for the unconsolidated company:

	September 30,	
	<u>2023</u>	
Current assets	\$	4,942,287
Noncurrent assets		5,631,040
Current liabilities		818,045
Noncurrent liabilities		4,731,503
Equity		5,023,779
		For the
		Period from
		February 9,
		2023
		(Date of
	For the	Investment)
	Three Months	through
	Ended	September 30,
	September 30,	September 30,
	2023	2023
Net revenue	\$	3,485,337
Gross profit		9,147,554
Income from operation		1,607,102
Net income		1,014,236
		1,710,118
		1,395,611
		2,283,446

According to the Amended MIPA, at any time during the period beginning on February 9, 2023 and ending on the date nine (9) months after February 9, 2023, the Buyer, or its designated affiliates under the Amended MIPA, may purchase from the Seller twenty percent (20%) of the total issued and outstanding equity interests of Laboratory Services MSO for the purchase price of (i) \$6,000,000 in cash and (ii) the issuance of an additional 4,000 shares of Series B Preferred Stock valued at \$4,000,000, in accordance with the terms and conditions set forth in the Amended MIPA. As of the date of this report, the Amended MIPA has expired. Currently, both parties are negotiating the purchase of additional eleven percent (11%) of the total issued and outstanding equity interests of Laboratory Services MSO.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 6 — CONVERTIBLE NOTE PAYABLE

May 2023 Convertible Note

On May 23, 2023, the Company entered into securities purchase agreements with Mast Hill Fund, L.P. (“Mast Hill”) for the issuance of 13.0% senior secured promissory notes in the aggregate principal amount of \$1,500,000 (collectively, the “May 2023 Convertible Note”) convertible into shares of common stock, par value \$0.0001 per share, of the Company, as well as the issuance of 75,000 shares of common stock as a commitment fee and warrants for the purchase of 230,500 shares of common stock of the Company. The Company and its subsidiaries have also entered into a security agreement, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the May 2023 Convertible Note. Principal amount and interest under the May 2023 Convertible Note are convertible into shares of common stock of the Company at a conversion price of \$4.50 per share unless the Company fails to make an amortization payment when due, in which case the conversion price shall be the lower of \$4.50 or the trading price of the shares, subject to a floor of \$1.50.

Mast Hill acquired the May 2023 Convertible Note with principal amount of \$1,500,000 and paid the purchase price of \$1,425,000 after an original issue discount of \$75,000. On May 23, 2023, the Company issued (i) a warrant to purchase 125,000 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023, (ii) a warrant to purchase 105,500 shares of common stock with an exercise price of \$3.20 exercisable until the five-year anniversary of May 23, 2023, which warrant shall be cancelled and extinguished against payment of the May 2023 Convertible Note, and (iii) 75,000 shares of common stock as a commitment fee for the purchase of the May 2023 Convertible Note, which were earned in full as of May 23, 2023. On May 23, 2023, the Company delivered such duly executed May 2023 Convertible Note, warrants and common stock to Mast Hill against delivery of such purchase price.

The Company is obligated to make amortization payments in cash to Mast Hill towards the repayment of the May 2023 Convertible Note, as provided in the following table:

Payment Date:	Payment Amount:
November 23, 2023	\$150,000 plus accrued interest through November 23, 2023
December 23, 2023	\$150,000 plus accrued interest through December 23, 2023
January 23, 2024	\$200,000 plus accrued interest through January 23, 2024
February 23, 2024	\$250,000 plus accrued interest through February 23, 2024
March 23, 2024	\$250,000 plus accrued interest through March 23, 2024
April 23, 2024	\$300,000 plus accrued interest through April 23, 2024
May 23, 2024	The entire remaining outstanding balance of the May 2023 Convertible Note

In connection with the issuance of the May 2023 Convertible Note, the Company incurred debt issuance costs of \$175,162 (including the issuance of 10,000 warrants as a finder’s fee) which is capitalized and will be amortized into interest expense over the term of the May 2023 Convertible Note.

Based upon the Company’s analysis of the criteria contained in ASC 815, the Company determined that all the warrants issued to Mast Hill and a third party as a finder’s fee met the definition of a derivative liability, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 105,500 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of May 23, 2023, which warrant shall be cancelled and extinguished against payment of the May 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 was classified as derivative liability on May 23, 2023. The fair values of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 issued on May 23, 2023 were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.96, volatility of 88.80%, risk-free rate of 3.76%, annual dividend yield of 0% and expected life of 5 years.

In accordance with ASC 470-20-25-2, proceeds from the sale of a debt instrument with stock purchase warrants are allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The portion of the proceeds allocated to the warrants are accounted for as derivative liability. The remainder of the proceeds are allocated to the debt instrument portion of the transaction.

In accordance with ASC 480-10-25-14, the Company determined that the conversion provisions contain an embedded derivative feature and the Company valued the derivative feature separately, recording debt discount and derivative liability in accordance with the provisions of the convertible debt (see Note 7). However, management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the embedded conversion feature has been estimated to be zero.

The Company recorded a total debt discount of \$349,654 related to the original issue discount, common shares issued and warrants issued to Mast Hill, which will be amortized over the term of the May 2023 Convertible Note.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 6 — CONVERTIBLE NOTE PAYABLE (continued)

May 2023 Convertible Note (continued)

For the three months ended September 30, 2023, amortization of debt discount and debt issuance costs and interest expense related to the May 2023 Convertible Note amounted to \$131,204 and \$49,151, respectively, which have been included in interest expense — amortization of debt discount and debt issuance cost and interest expense — other on the accompanying condensed consolidated statements of operations and comprehensive loss.

For the nine months ended September 30, 2023, amortization of debt discount and debt issuance costs and interest expense related to the May 2023 Convertible Note amounted to \$175,919 and \$69,987, respectively, which have been included in interest expense — amortization of debt discount and debt issuance cost and interest expense — other on the accompanying condensed consolidated statements of operations and comprehensive loss.

July 2023 Convertible Note

On July 6, 2023, the Company entered into securities purchase agreements with Firstfire Global Opportunities Fund, LLC (“Firstfire”) for the issuance of 13.0% senior secured promissory notes in the aggregate principal amount of \$500,000 (collectively, the “July 2023 Convertible Note”) convertible into shares of common stock, par value \$0.0001 per share, of the Company, as well as the issuance of 25,000 shares of common stock as a commitment fee and warrants for the purchase of 76,830 shares of common stock of the Company. The Company and its subsidiaries have also entered into a security agreement, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the July 2023 Convertible Note. Principal amount and interest under the July 2023 Convertible Note are convertible into shares of common stock of the Company at a conversion price of \$4.50 per share unless the Company fails to make an amortization payment when due, in which case the conversion price shall be the lower of \$4.50 or the trading price of the shares, subject to a floor of \$1.50.

Firstfire acquired the July 2023 Convertible Note with principal amount of \$500,000 and paid the purchase price of \$475,000 after an original issue discount of \$25,000. On July 6, 2023, the Company issued (i) a warrant to purchase 41,665 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023, (ii) a warrant to purchase 35,165 shares of common stock with an exercise price of \$3.20 exercisable until the five-year anniversary of July 6, 2023, which warrant shall be cancelled and extinguished against payment of the July 2023 Convertible Note, and (iii) 25,000 shares of common stock as a commitment fee for the purchase of the July 2023 Convertible Note, which were earned in full as of July 6, 2023. On July 6, 2023, the Company delivered such duly executed July 2023 Convertible Note, warrants and common stock to Firstfire against delivery of such purchase price.

The Company is obligated to make amortization payments in cash to Firstfire towards the repayment of the July 2023 Convertible Note, as provided in the following table:

Payment Date:	Payment Amount:
January 6, 2024	\$50,000 plus accrued interest through January 6, 2024
February 6, 2024	\$50,000 plus accrued interest through February 6, 2024
March 6, 2024	\$66,000 plus accrued interest through March 6, 2024
April 6, 2024	\$83,000 plus accrued interest through April 6, 2024
May 6, 2024	\$83,000 plus accrued interest through May 6, 2024
June 6, 2024	\$100,000 plus accrued interest through June 6, 2024
July 6, 2024	The entire remaining outstanding balance of the July 2023 Convertible Note

In connection with the issuance of the July 2023 Convertible Note, the Company incurred debt issuance costs of \$74,204 (including the issuance of 3,333 warrants as a finder’s fee), which is capitalized and will be amortized into interest expense over the term of the July 2023 Convertible Note.

Based upon the Company’s analysis of the criteria contained in ASC 815, the Company determined that all the warrants issued to Firstfire and a third party as a finder’s fee meet the definition of a derivative liability, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 35,165 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of July 6, 2023, which warrant shall be cancelled and extinguished against payment of the July 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 was classified as a derivative liability on July 6, 2023. The fair values of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 issued on July 6, 2023 were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.42, volatility of 88.52%, risk-free rate of 4.37%, annual dividend yield of 0% and expected life of 5 years.

In accordance with ASC 470-20-25-2, proceeds from the sale of a debt instrument with stock purchase warrants are allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The portion of the proceeds allocated to the warrants are accounted for as derivative liability. The remainder of the proceeds are allocated to the debt instrument portion of the transaction.

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NOTE 6 — CONVERTIBLE NOTE PAYABLE (continued)

July 2023 Convertible Note (continued)

In accordance with ASC 480-10-25-14, the Company determined that the conversion provisions contain an embedded derivative feature and the Company valued the derivative feature separately, recording debt discount and derivative liability in accordance with the provisions of the convertible debt (see Note 7). However, management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the embedded conversion feature has been estimated to be zero.

The Company recorded a total debt discount of \$89,191 related to the original issue discount, common shares issued and warrants issued to Firstfire, which will be amortized over the term of the July 2023 Convertible Note.

For both the three and nine months ended September 30, 2023, amortization of debt discount and debt issuance costs and interest expense related to the July 2023 Convertible Note amounted to \$38,125 and \$15,493, respectively, which have been included in interest expense — amortization of debt discount and debt issuance cost and interest expense — other on the accompanying condensed consolidated statements of operations and comprehensive loss.

NOTE 7 — DERIVATIVE LIABILITY

As stated in Note 6, May 2023 Convertible Note and July 2023 Convertible Note, the Company determined that the convertible note payable contains an embedded derivative feature in the form of a conversion provision which is adjustable based on future prices of the Company's common stock. In accordance with ASC 815-10-25, each derivative feature is initially recorded at its fair value using the Black-Scholes option valuation method and then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. However, on May 23, 2023, July 6, 2023, and September 30, 2023, management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the embedded conversion feature has been estimated to be zero.

On May 23, 2023, the Company issued 240,500 warrants to Mast Hill and a third party as a finder's fee (see Note 6). Upon evaluation, the warrants meet the definition of a derivative liability under FASB ASC 815, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 105,500 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of May 23, 2023, which warrant shall be cancelled and extinguished against payment of the May 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 was classified as a derivative liability on May 23, 2023.

On May 23, 2023, the estimated fair value of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 issued were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.96, volatility of 88.80%, risk-free rate of 3.76%, annual dividend yield of 0% and expected life of 5 years.

On September 30, 2023, the estimated fair value of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 as derivative liability was \$39,688. The estimated fair value of the warrants was computed as of September 30, 2023 using Black-Scholes option-pricing model, with the following assumptions: stock price of \$0.80, volatility of 86.97%, risk-free rate of 4.60%, annual dividend yield of 0% and expected life of 4.6 years.

On July 6, 2023, the Company issued 80,163 warrants to Firstfire and a third party as a finder's fee (see Note 6). Upon evaluation, the warrants meet the definition of a derivative liability under FASB ASC 815, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 35,165 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of July 6, 2023, which warrant shall be cancelled and extinguished against payment of the July 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 was classified as a derivative liability on July 6, 2023.

On July 6, 2023, the estimated fair values of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 issued were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.42, volatility of 88.52%, risk-free rate of 4.37%, annual dividend yield of 0% and expected life of 5 years.

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NOTE 7 — DERIVATIVE LIABILITY (continued)

On September 30, 2023, the estimated fair value of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 as derivative liability was \$14,982. The estimated fair value of the warrants was computed as of September 30, 2023 using Black-Scholes option-pricing model, with the following assumptions: stock price of \$0.80, volatility of 91.44%, risk-free rate of 4.60%, annual dividend yield of 0% and expected life of 4.8 years.

Increases or decreases in fair value of the derivative liability is included as a component of total other (expenses) income in the accompanying condensed consolidated statements of operations and comprehensive loss for the respective period. The changes to the derivative liability resulted in a decrease of \$87,173 and \$128,894 in the derivative liability and the corresponding increase in other income as a gain for the three and nine months ended September 30, 2023, respectively.

NOTE 8 — NOTE PAYABLE, NET

On September 1, 2022, the Company issued a balloon promissory note in the form of a mortgage on its headquarters to a third party company in the principal amount of \$4,800,000, which carries interest of 11.0% per annum. Interest is due in monthly payments of \$44,000 beginning November 1, 2022 and payable monthly thereafter until September 1, 2025 when the principal outstanding and all remaining interest is due. The principal of \$4,800,000 can be extended for an additional 36 months, provided that the Company has not defaulted. The Company may not prepay the principal of \$4,800,00 for a period of 12 months. The principal of \$4,800,000 is secured by a first mortgage on the Company's real property located in Township of Freehold, County of Monmouth, State of New Jersey, having a street address of 4400 Route 9 South, Freehold, NJ 07728.

In May 2023, the Company borrowed \$1,000,000 from the same lender. The principal of \$1,000,000 accrues interest at an annual rate of 13.0% and is payable in monthly installments of interest-only in the amount of \$10,833, commencing in June 2023 and continuing through October 2025 (at which point any unpaid balance of principal, interest and other charges are due and payable). The loan is secured by a second-lien mortgage on certain real property and improvements located at 4400 Route 9, Freehold, Monmouth County, New Jersey.

The note payable as of September 30, 2023 and December 31, 2022 is as follows:

	September 30,	December 31,
	2023	2022
Principal amount	\$ 5,800,000	\$ 4,800,000
Less: unamortized debt issuance costs	(233,588)	(236,848)
Note payable, net	<u>\$ 5,566,412</u>	<u>\$ 4,563,152</u>

For the three months ended September 30, 2023 and 2022, amortization of debt issuance costs related to note payable amounted to \$29,807 and \$22,204, respectively, which have been included in interest expense — amortization of debt discount and debt issuance cost on the accompanying condensed consolidated statements of operations and comprehensive loss. For the three months ended September 30, 2023 and 2022, interest expense related to note payable amounted to \$164,500 and \$44,000, respectively, which have been included in interest expense - other on the accompanying condensed consolidated statements of operations and comprehensive loss.

For the nine months ended September 30, 2023 and 2022, amortization of debt issuance costs related to note payable amounted to \$76,750 and \$22,204, respectively, which have been included in interest expense — amortization of debt discount and debt issuance cost on the accompanying condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2023 and 2022, interest expense related to note payable amounted to \$442,222 and \$44,000, respectively, which have been included in interest expense - other on the accompanying condensed consolidated statements of operations and comprehensive loss.

NOTE 9 — RELATED PARTY TRANSACTIONS

Rental Revenue from Related Party and Rent Receivable — Related Party

The Company leases space of its commercial real property located in New Jersey to a company, D.P. Capital Investments LLC, which is controlled by Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors. The term of the related party lease agreement is five years commencing on May 1, 2021 and will expire on April 30, 2026.

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NOTE 9 — RELATED PARTY TRANSACTIONS (continued)

Rental Revenue from Related Party and Rent Receivable — Related Party (continued)

For both the three months ended September 30, 2023 and 2022, the related party rental revenue amounted to \$12,600 and has been included in rental revenue on the accompanying condensed consolidated statements of operations and comprehensive loss. For both the nine months ended September 30, 2023 and 2022, the related party rental revenue amounted to \$37,800 and has been included in rental revenue on the accompanying condensed consolidated statements of operations and comprehensive loss.

At September 30, 2023 and December 31, 2022, the related party rent receivable totaled \$36,900 and \$74,100, respectively, which has been included in rent receivable on the accompanying condensed consolidated balance sheets, and no allowance for doubtful accounts was deemed to be required on the receivable.

Services Provided by Related Parties

From time to time, Wilbert Tauzin, a director of the Company, and his son provide consulting services to the Company. As compensation for professional services provided, the Company recognized consulting expenses of \$20,049 and \$29,121 for the three months ended September 30, 2023 and 2022, respectively, which have been included in professional fees on the accompanying condensed consolidated statements of operations and comprehensive loss. As compensation for professional services provided, the Company recognized consulting expenses of \$68,691 and \$116,719 for the nine months ended September 30, 2023 and 2022, respectively, which have been included in professional fees on the accompanying condensed consolidated statements of operations and comprehensive loss.

Accrued Liabilities and Other Payables — Related Parties

In 2017, the Company acquired Beijing Genexosome for a cash payment of \$450,000. As of September 30, 2023 and December 31, 2022, the unpaid acquisition consideration of \$100,000, was payable to Dr. Yu Zhou, former director and former co-chief executive officer and 40% owner of Genexosome, and has been included in accrued liabilities and other payables — related parties on the accompanying condensed consolidated balance sheets.

During the period from June 2023 through September 2023, Lab Services MSO paid shared expense on behalf of the Company. As of September 30, 2023, the balance due to Lab Services MSO amounted to \$36,481, which has been included in accrued liabilities and other payables — related parties on the accompanying condensed consolidated balance sheets.

As of September 30, 2023 and December 31, 2022, \$23,000 and \$0 of accrued and unpaid interest related to borrowings from Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors, respectively, have been included in accrued liabilities and other payables — related parties on the accompanying condensed consolidated balance sheets.

Borrowings from Related Party

Line of Credit

On August 29, 2019, the Company entered into a Line of Credit Agreement (the "Line of Credit Agreement") providing the Company with a \$20 million line of credit (the "Line of Credit") from Wenzhao Lu (the "Lender"), the largest shareholder and Chairman of the Board of Directors of the Company. The Line of Credit allows the Company to request loans thereunder and to use the proceeds of such loans for working capital and operating expense purposes until the facility matures on December 31, 2024. The loans are unsecured and are not convertible into equity of the Company. Loans drawn under the Line of Credit bear interest at an annual rate of 5% and each individual loan is payable three years from the date of issuance. The Company has a right to draw down on the line of credit and not at the discretion of the related party Lender. The Company may, at its option, prepay any borrowings under the Line of Credit, in whole or in part at any time prior to maturity, without premium or penalty. The Line of Credit Agreement includes customary events of default. If any such event of default occurs, the Lender may declare all outstanding loans under the Line of Credit to be due and payable immediately.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 9 — RELATED PARTY TRANSACTIONS (continued)

In the nine months ended September 30, 2023, activity recorded for the Line of Credit is summarized in the following table:

Outstanding principal under the Line of Credit at January 1, 2023	\$ -
Draw down from Line of Credit	850,000
Outstanding principal under the Line of Credit at September 30, 2023	<u>\$ 850,000</u>

For the three months ended September 30, 2023 and 2022, the interest expense related to related party borrowings amounted to \$10,712 and \$8,358, respectively, and has been reflected as interest expense — related party on the accompanying condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2023 and 2022, the interest expense related to related party borrowings amounted to \$23,000 and \$79,898, respectively, and has been reflected as interest expense — related party on the accompanying condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2023 and December 31, 2022, the related accrued and unpaid interest for Line of Credit was \$23,000 and \$0, respectively, and has been included in accrued liabilities and other payables — related parties on the accompanying condensed consolidated balance sheets.

As of September 30, 2023, the Company used approximately \$6.8 million of the credit facility and has approximately \$13.2 million remaining available under the Line of Credit.

NOTE 10 — EQUITY

Series A Convertible Preferred Stock

The Company designated up to 15,000 shares of its previously undesignated preferred stock as Series A Preferred Stock. Each share of Series A Preferred Stock has a par value of \$0.0001 per share and a stated value equal to \$1,000.

As of September 30, 2023, 9,000 shares of Series A Preferred Stock were issued and outstanding. The Series A Preferred Stock is convertible into shares of the Company's common stock at a conversion price per share equal to the greater of (i) ten dollars (\$10.00), and (ii) ninety percent (90%) of the closing price of the Company's common stock on the Nasdaq Stock Market ("Nasdaq") on the day prior to receipt of the conversion notice from the Series A Preferred stock-holder, subject to adjustment for stock splits and similar matters. Conversion of the Series A Preferred Stock is subject to restriction pursuant to the Nasdaq Stock Market Listing Rules.

Series B Convertible Preferred Stock Issued for Equity Method Investment

The Company designated up to 15,000 shares of its previously undesignated preferred stock as Series B Preferred Stock. Each share of Series B Preferred Stock has a par value of \$0.0001 per share and a stated value equal to \$1,000.

On February 9, 2023, the Company issued 11,000 shares of its Series B Convertible Preferred Stock as a part of consideration for the purchase of 40% of equity interest of Lab Services MSO. The Series B Preferred Stock is convertible into shares of the Company's common stock at a conversion price per share equal to \$3.78 or an aggregate of 2,910,053 shares of the Company's common stock and are subject to a lock-up period and restrictions on sale (See Note — 5 - *Investment in Laboratory Services MSO, LLC*).

Common Shares Sold for Cash

In June 2023, the Company entered into a sales agreement (the "Sales Agreement") with Roth Capital Partners, LLC ("Roth") under which the Company may offer and sell from time to time shares of its common stock having an aggregate offering price of up to \$3.5 million. During the nine months ended September 30, 2023, Roth sold an aggregate of 456,627 shares of common stock at an average price of \$1.39 per share to investors and the Company recorded net proceeds of \$414,396, net of commission and other offering costs of \$220,995.

Common Shares Issued for Services

During the nine months ended September 30, 2023, the Company issued a total of 361,331 shares of its common stock for services rendered and to be rendered. These shares were valued at \$999,656, the fair market values on the grant dates using the reported closing share prices on the dates of grant, and the Company recorded stock-based compensation expense of \$776,285 for the nine months ended September 30, 2023 and reduced accrued liabilities of \$164,871 and recorded prepaid expense of \$58,500 as of September 30, 2023 which will be amortized over the rest of corresponding service periods.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 10 — EQUITY (continued)

Common Shares Issued as Convertible Note Payable Commitment Fee

On May 23, 2023, the Company issued 75,000 shares of its common stock to Mast Hill as a commitment fee for the purchase of the May 2023 Convertible Note. These shares were valued at \$147,000, the fair market value on the grant date using the reported closing share price on the date of grant, and the Company recorded it as debt discount.

On July 6, 2023, the Company issued 25,000 shares of its common stock to FirstFire as a commitment fee for the purchase of the July 2023 Convertible Note. These shares were valued at \$35,500, the fair market value on the grant date using the reported closing share price on the date of grant, and the Company recorded it as debt discount.

Options

The following table summarizes the shares of the Company's common stock issuable upon exercise of options outstanding at September 30, 2023:

Options Outstanding				Options Exercisable			
Number		Weighted Average		Number			
Range of	Outstanding at	Remaining	Weighted	Exercisable at	Weighted		
Exercise Price	September 30,	Contractual Life	Average	September 30,	Average Exercise		
	2023	(Years)	Exercise Price	2023	Price		
\$ 1.86 — 2.08	131,000	4.43	\$ 1.87	59,667	\$ 1.87		
3.25 — 8.20	307,803	3.29	5.26	298,136	5.27		
10.20 — 20.00	414,500	2.20	16.42	414,500	16.42		
27.50	19,000	0.25	27.50	19,000	27.50		
\$ 1.86 — 27.50	872,303	2.88	\$ 10.54	791,303	\$ 11.39		

Stock option activity for the nine months ended September 30, 2023 was as follows:

	Number of	Weighted
	Options	Average
		Exercise
	Options	Price
Outstanding at January 1, 2023	800,500	\$ 13.03
Granted	168,803	2.54
Expired	(97,000)	(17.21)
Outstanding at September 30, 2023	872,303	\$ 10.54
Options exercisable at September 30, 2023	791,303	\$ 11.39
Options expected to vest	81,000	\$ 2.22

The aggregate intrinsic value of both stock options outstanding and stock options exercisable at September 30, 2023 was \$0.

The fair values of options granted during the nine months ended September 30, 2023 were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: volatility of 79.76% - 96.37%, risk-free rate of 3.58% - 3.96%, annual dividend yield of 0%, and expected life of 3.00 - 5.00 years. The aggregate fair value of the options granted during the nine months ended September 30, 2023 was \$313,144.

The fair values of options granted during the nine months ended September 30, 2022 were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: volatility of 74.8% - 117.46%, risk-free rate of 1.37% - 3.56%, annual dividend yield of 0%, and expected life of 3.00 - 5.00 years. The aggregate fair value of the options granted during the nine months ended September 30, 2022 was \$373,982.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 10 — EQUITY (continued)

Options (continued)

For the three months ended September 30, 2023 and 2022, stock-based compensation expense associated with stock options granted amounted to \$54,654 and \$110,442, of which, \$42,906 and \$87,300 was recorded as compensation and related benefits, \$11,748 and \$14,121 was recorded as professional fees, and \$0 and \$9,021 was recorded as research and development expenses, respectively.

For the nine months ended September 30, 2023 and 2022, stock-based compensation expense associated with stock options granted amounted to \$234,931 and \$389,066, of which, \$132,433 and \$285,384 was recorded as compensation and related benefits, \$97,029 and \$71,719 was recorded as professional fees, and \$5,469 and \$31,963 was recorded as research and development expenses, respectively.

A summary of the status of the Company's nonvested stock options granted as of September 30, 2023 and changes during the nine months ended September 30, 2023 is presented below:

	Number of Options	Weighted Average Exercise Price
Nonvested at January 1, 2023	20,000	\$ 4.29
Granted	168,803	2.54
Vested	(107,803)	(3.10)
Nonvested at September 30, 2023	81,000	\$ 2.22

Warrants

The following table summarizes the shares of the Company's common stock issuable upon exercise of warrants outstanding at September 30, 2023:

Warrants Outstanding				Warrants Exercisable			
Number		Weighted Average		Number		Weighted Average	
Outstanding at September 30, 2023	Exercise Price	Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable at September 30, 2023	Exercise Price	Exercisable at September 30, 2023	Weighted Average Exercise Price
140,665	\$ 3.20	4.68	\$ 3.20	-	\$ -	-	-
179,998	4.50	4.68	4.50	179,998	4.50	179,998	4.50
123,964	12.50	3.56	12.50	123,964	12.50	123,964	12.50
444,627	\$ 3.20 — 12.50	4.37	\$ 6.32	303,962	\$ 7.76	303,962	\$ 7.76

Stock warrant activities for the nine months ended September 30, 2023 were as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2023	123,964	\$ 12.50
Issued	320,663	3.93
Outstanding at September 30, 2023	444,627	\$ 6.32
Warrants exercisable at September 30, 2023	303,962	\$ 7.76
Warrants expected to vest	140,665	\$ 3.20

The aggregate intrinsic value of both stock warrants outstanding and stock warrants exercisable at September 30, 2023 was \$0.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 10 — EQUITY (continued)

Warrants (continued)

Warrants Issued in May 2023

In connection with the issuance of May 2023 Convertible Note (See Note 6), the Company issued (i) a warrant to purchase 125,000 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023, and (ii) a warrant to purchase 105,500 shares of common stock with an exercise price of \$3.20 exercisable until the five-year anniversary of May 23, 2023, which warrant shall be cancelled and extinguished against payment of the May 2023 Convertible Note, to Mast Hill; and issued a warrant to purchase 10,000 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 to a third party as a finder's fee.

Based upon the Company's analysis of the criteria contained in ASC 815, the Company determined that all the warrants issued to Mast Hill and a third party as a finder's fee meet the definition of derivative liability, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 105,500 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of May 23, 2023, which warrant shall be cancelled and extinguished against payment of the May 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 was classified as derivative liability on May 23, 2023. The fair values of the 135,000 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 issued on May 23, 2023 were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.96, volatility of 88.80%, risk-free rate of 3.76%, annual dividend yield of 0% and expected life of 5 years.

The warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 issued to Mast Hill to purchase 125,000 shares of the Company's common stock were treated as a discount on the convertible note payable and were valued at \$127,654 and will be amortized over the term of the May 2023 Convertible Note.

The warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of May 23, 2023 issued to a third party as a finder's fee to purchase 10,000 shares of the Company's common stock were treated as convertible debt issuance costs and were valued at \$11,162 and will be amortized over the term of the May 2023 Convertible Note.

Warrants Issued in July 2023

In connection with the issuance of July 2023 Convertible Note (See Note 6), the Company issued (i) a warrant to purchase 41,665 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023, and (ii) a warrant to purchase 35,165 shares of common stock with an exercise price of \$3.20 exercisable until the five-year anniversary of July 6, 2023, which warrant shall be cancelled and extinguished against payment of the July 2023 Convertible Note, to Firstfire; and issued a warrant to purchase 3,333 shares of common stock with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 to a third party as a finder's fee.

Based upon the Company's analysis of the criteria contained in ASC 815, the Company determined that all the warrants issued to Firstfire and a third party as a finder's fee meet the definition of derivative liability, as the Company cannot avoid a net cash settlement under certain circumstances. Management determined the probability of failing to make an amortization payment when due to be remote and as such the fair value of the 35,165 warrants with an exercise price of \$3.20 exercisable until the five-year anniversary of July 6, 2023, which warrant shall be cancelled and extinguished against payment of the July 2023 Convertible Note, has been estimated to be zero. Accordingly, the fair value of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 was classified as derivative liability on July 6, 2023. The fair values of the 44,998 warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 issued on July 6, 2023 were computed using the Black-Scholes option-pricing model with the following assumptions: stock price of \$1.42, volatility of 88.52%, risk-free rate of 4.37%, annual dividend yield of 0% and expected life of 5 years.

The warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 issued to Firstfire to purchase 41,665 shares of the Company's common stock were treated as a discount on the convertible note payable and were valued at \$28,691 and will be amortized over the term of the July 2023 Convertible Note.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
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NOTE 10 — EQUITY (continued)

Warrants (continued)

The warrants with an exercise price of \$4.50 exercisable until the five-year anniversary of July 6, 2023 issued to a third party as a finder’s fee to purchase 3,333 shares of the Company’s common stock were treated as convertible debt issuance costs and were valued at \$2,435 and will be amortized over the term of the July 2023 Convertible Note.

A summary of the status of the Company’s nonvested stock warrants issued as of September 30, 2023 and changes during the nine months ended September 30, 2023 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Nonvested at January 1, 2023	-	\$ -
Issued	320,663	3.93
Vested	(179,998)	(4.50)
Nonvested at September 30, 2023	140,665	\$ 3.20

NOTE 11 - STATUTORY RESERVE AND RESTRICTED NET ASSETS

The Company’s PRC subsidiary, Avalon Shanghai, is restricted in its ability to transfer a portion of its net asset to the Company. The payment of dividends by entities organized in China is subject to limitations, procedures and formalities. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China.

The Company is required to make appropriations to certain reserve funds, comprising the statutory surplus reserve and the discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (“PRC GAAP”). Appropriations to the statutory surplus reserve are required to be at least 10% of the after-tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entity’s registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production or increase in registered capital, but are not distributable as cash dividends. The Company did not make any appropriation to statutory reserve for Avalon Shanghai during the nine months ended September 30, 2023 and 2022 as it incurred net loss in the periods. As of September 30, 2023 and December 31, 2022, the restricted amount as determined pursuant to PRC statutory laws totaled \$6,578.

Relevant PRC laws and regulations restrict the Company’s PRC subsidiary, Avalon Shanghai, from transferring a portion of its net assets, equivalent to their statutory reserves and their share capital, to the Company’s shareholders in the form of loans, advances or cash dividends. Only PRC entity’s accumulated profit may be distributed as dividend to the Company’s shareholders without the consent of a third party. As of September 30, 2023 and December 31, 2022, total restricted net assets amounted to \$1,106,578 and \$1,006,578, respectively.

NOTE 12 — CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Pursuant to the requirements of Rule 12-04(a), 5-04(c) and 4-08(e)(3) of Regulation S-X, the condensed financial information of the parent company shall be filed when the restricted net assets of consolidated subsidiary exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of this test, restricted net assets of consolidated subsidiary shall mean that amount of the Company’s proportionate share of net assets of consolidated subsidiary (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiary in the form of loans, advances or cash dividends without the consent of a third party.

The Company performed a test on the restricted net assets of consolidated subsidiary in accordance with such requirement and concluded that it was not applicable to the Company as the restricted net assets of the Company’s PRC subsidiary did not exceed 25% of the consolidated net assets of the Company, therefore, the condensed financial statements for the parent company have not been required.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - CONCENTRATIONS

Customers

The following table sets forth information as to each customer that accounted for 10% or more of the Company's revenues for the three and nine months ended September 30, 2023 and 2022.

Customer	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
A	32%	32%	31%	31%
B	17%	19%	18%	19%
C	11%	12%	12%	12%

Two customers, of which, one is a related party and the other is a third party, whose outstanding receivable accounted for 10% or more of the Company's total outstanding rent receivable at September 30, 2023, accounted for 70.8% of the Company's total outstanding rent receivable at September 30, 2023.

Two customers, of which, one is a related party and the other is a third party, whose outstanding receivable accounted for 10% or more of the Company's total outstanding rent receivable at December 31, 2022, accounted for 81.4% of the Company's total outstanding rent receivable at December 31, 2022.

Suppliers

No supplier accounted for 10% or more of the Company's purchase during the three and nine months ended September 30, 2023 and 2022.

NOTE 14 — SEGMENT INFORMATION

For the three and nine months ended September 30, 2022, the Company operated in two reportable business segments - (1) the real property operating segment, and (2) the medical related consulting services segment. The Company's reportable segments are strategic business units that offer different services and products. They are managed separately based on the fundamental differences in their operations.

Due to the winding down of the medical related consulting services segment in 2022, the Company decided to cease all operations of this segment and no longer has any material revenues or expenses in this segment. As a result, commencing from the first quarter of 2023, the Company's chief operating decision maker no longer reviews medical related consulting services operating results.

On February 9, 2023, the Company purchased 40% of Lab Services MSO. Commencing from the purchase date, February 9, 2023, the Company is active in the management of Lab Services MSO. During the three and nine months ended September 30, 2023, the Company operated in two reportable business segments: (1) the real property operating segment, and (2) laboratory testing services segment (which commenced with the purchase date, February 9, 2023) since Lab Services MSO's operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The Company regularly reviews the operating results and performance of Lab Services MSO, which is the Company's an equity method investee.

Information with respect to these reportable business segments for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Three Months Ended September 30, 2023			
	Real Property Operations	Lab Services MSO	Corporate / Other	Total
Real property rental revenue	\$ 331,290	\$ -	\$ -	\$ 331,290
Real property operating expenses	(288,083)	-	-	(288,083)
Real property operating income	43,207	-	-	43,207
Income from equity method investment - Lab Services MSO	-	354,500	-	354,500
Other operating expenses	(73,092)	-	(1,465,751)	(1,538,843)
Other (expense) income:				
Interest expense	-	-	(438,992)	(438,992)
Other income	4	-	95,049	95,053
Net (loss) income	\$ (29,881)	\$ 354,500	\$ (1,809,694)	\$ (1,485,075)

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 — SEGMENT INFORMATION (continued)

	Three Months Ended September 30, 2022				
	Real Property Operations	Medical Related Consulting Services		Corporate / Other	Total
Real property rental revenue	\$ 317,390	\$ -	\$ -	\$ 317,390	
Real property operating expenses	(247,152)	-	-	(247,152)	
Real property operating income	70,238	-	-	70,238	
Other operating expenses	(76,299)	(96,321)	(1,486,717)	(1,659,337)	
Other (expense) income:					
Interest expense	-	-	(3,303,502)	(3,303,502)	
Other income (expense)	4	(8,848)	(512,709)	(521,553)	
Net loss	\$ (6,057)	\$ (105,169)	\$ (5,302,928)	\$ (5,414,154)	

	Nine Months Ended September 30, 2023				
	Real Property Operations	Lab Services MSO		Corporate / Other	Total
Real property rental revenue	\$ 934,360	\$ -	\$ -	\$ 934,360	
Real property operating expenses	(781,931)	-	-	(781,931)	
Real property operating income	152,429	-	-	152,429	
Income from equity method investment - Lab Services MSO	-	370,060	-	370,060	
Other operating expenses	(266,433)	-	(6,218,887)	(6,485,320)	
Other (expense) income:					
Interest expense	-	-	(841,496)	(841,496)	
Other income (expense)	11	-	(347,560)	(347,549)	
Net (loss) income	\$ (113,993)	\$ 370,060	\$ (7,407,943)	\$ (7,151,876)	

	Nine Months Ended September 30, 2022				
	Real Property Operations	Medical Related Consulting Services		Corporate / Other	Total
Real property rental revenue	\$ 905,842	\$ -	\$ -	\$ 905,842	
Real property operating expenses	(677,303)	-	-	(677,303)	
Real property operating income	228,539	-	-	228,539	
Other operating expenses	(265,251)	(289,671)	(6,233,229)	(6,788,151)	
Other (expense) income:					
Interest expense	-	-	(3,436,931)	(3,436,931)	
Other income	11	223,735	259,631	483,377	
Net loss	\$ (36,701)	\$ (65,936)	\$ (9,410,529)	\$ (9,513,166)	

	September 30,	
	2023	2022
Identifiable long-lived tangible assets at September 30, 2023 and December 31, 2022		
Real property operations	\$ 7,255,968	\$ 7,367,360
Medical related consulting services	-	408
Corporate/Other	17,941	130,613
Total	<u>\$ 7,273,909</u>	<u>\$ 7,498,381</u>

	September 30,	
	2023	2022
Identifiable long-lived tangible assets at September 30, 2023 and December 31, 2022		
United States	\$ 7,271,860	\$ 7,393,307
China	2,049	105,074
Total	<u>\$ 7,273,909</u>	<u>\$ 7,498,381</u>

AVALON GLOBOCARE CORP. AND SUBSIDIARIES

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NOTE 15 — COMMITMENTS AND CONTINGENCIES

Operating Leases Commitment

The Company is a party to leases for office space. These lease agreements will expire through February 2025. Rent expense under all operating leases amounted to approximately \$97,000 and \$107,000 for the nine months ended September 30, 2023 and 2022, respectively. Supplemental cash flow information related to leases for the nine months ended September 30, 2023 and 2022 is as follows:

	Nine Months Ended	
	September 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating lease	\$ 93,458	\$ 116,897
Right-of-use assets obtained in exchange for lease obligation:		
Operating lease	\$ 236,533	\$ -

The following table summarizes the lease term and discount rate for the Company's operating lease as of September 30, 2023:

	Operating Lease
Weighted average remaining lease term (in years)	1.34
Weighted average discount rate	11.0%

The following table summarizes the maturity of lease liabilities under operating lease as of September 30, 2023:

	Operating Lease
For the Twelve-month Period Ending September 30:	
2024	\$ 135,061
2025	37,020
Total lease payments	172,081
Amount of lease payments representing interest	(11,227)
Total present value of operating lease liabilities	\$ 160,854
Current portion	\$ 124,438
Long-term portion	36,416
Total	\$ 160,854

Joint Venture — Avactis Biosciences Inc.

On July 18, 2018, the Company formed a wholly owned subsidiary, Avactis Biosciences Inc. ("Avactis"), a Nevada corporation, which focuses on accelerating commercial activities related to cellular therapies as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others. When formed, Avactis was designed to integrate and optimize the Company's global scientific and clinical resources to further advance the use of cellular therapies to treat certain cancers, however the Company is no longer pursuing any commercial activities with respect to cellular immunotherapy and CAR-T, in particular. As of April 6, 2022, the Company owns 60% of Avactis and Arbele Biotherapeutics Limited ("Arbele Biotherapeutics") owns 40% of Avactis. Avactis owns 100% of the capital stock of Avactis Nanjing Biosciences Ltd., a company incorporated in the PRC on May 8, 2020 ("Avactis Nanjing"), which only owns a patent and is not considered an operating entity.

The Company is required to contribute \$10 million (or equivalent in RMB) in cash and/or services, which shall be contributed in tranches based on milestones to be determined jointly by Avactis and the Company in writing subject to the Company's cash reserves. Within 30 days, Arbele Biotherapeutics shall make contribution of \$6.66 million in the form of entering into a License Agreement with Avactis granting Avactis an exclusive right and license in China to its technology and intellectual property pertaining to CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology and any additional technology developed in the future with terms and conditions to be mutually agreed upon the Company and Avactis and services. As of the date hereof, the License Agreement has not been finalized by the parties.

In addition, the Company is responsible for contributing registered capital of RMB 5,000,000 (approximately \$0.7 million) for working capital purposes as required by local regulation, which is not required to be contributed immediately and will be contributed subject to the Company's discretion. As of the date hereof, Avactis' activities have been limited to that of a patent holding company and there is no other activity or planned contributions in 2023.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 — COMMITMENTS AND CONTINGENCIES (continued)

Line of Credit Agreement

On August 29, 2019, the Company entered into a Line of Credit Agreement (the “Line of Credit Agreement”) providing the Company with a \$20 million line of credit (the “Line of Credit”) from Wenzhao Lu (the “Lender”), a significant shareholder and director of the Company. The Line of Credit allows the Company to request loans thereunder and to use the proceeds of such loans for working capital and operating expense purposes until the facility matures on December 31, 2024. The loans are unsecured and are not convertible into equity of the Company. Loans drawn under the Line of Credit bears interest at an annual rate of 5% and each individual loan will be payable three years from the date of issuance. The Company has a right to draw down on the Line of Credit and not at the discretion of the related party Lender. The Company may, at its option, prepay any borrowings under the Line of Credit, in whole or in part at any time prior to maturity, without premium or penalty. The Line of Credit Agreement includes customary events of default. If any such event of default occurs, the Lender may declare all outstanding loans under the Line of Credit to be due and payable immediately. As of September 30, 2023, \$850,000 was outstanding under the Line of Credit.

NOTE 16 — RESTATEMENTS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Three months ended March 31, 2023

During the three months ended March 31, 2023, the Company misstated the equity method investment and income from equity method investments. The impact of these errors was an overstatement of total assets and total equity by approximately \$136,000 and an overstatement of income from equity method investments of approximately \$136,000 for the three months ended March 31, 2023. These errors did not have any impact on consolidated cash flow. The Company’s March 31, 2023 financial statements have been restated for the impact of these adjustments as follows:

	As Reported	Adjustment	As Restated
Condensed Consolidated Balance Sheet As of March 31, 2023			
Equity method investments	\$ 21,524,364	\$ (135,830)	\$ 21,388,534
Total assets	\$ 30,972,242	\$ (135,830)	\$ 30,836,412
Accumulated deficit	\$ (65,846,635)	\$ (135,830)	\$ (65,982,465)
Total equity	\$ 19,910,342	\$ (135,830)	\$ 19,774,512
Total liabilities and equity	\$ 30,972,242	\$ (135,830)	\$ 30,836,412

	As Reported	Adjustment	As Restated
Condensed Consolidated Statement of Operations and Comprehensive Loss for the Three Months Ended March 31, 2023			
Income from equity method investments	\$ 37,285	\$ (135,830)	\$ (98,545)
Total other expense, net	\$ (119,678)	\$ (135,830)	\$ (255,508)
Loss before income taxes	\$ (2,783,914)	\$ (135,830)	\$ (2,919,744)
Net loss	\$ (2,783,914)	\$ (135,830)	\$ (2,919,744)
Net loss attributable to Avalon Globocare Corp. common shareholders	\$ (2,783,914)	\$ (135,830)	\$ (2,919,744)
Comprehensive loss	\$ (2,780,244)	\$ (135,830)	\$ (2,916,074)
Comprehensive loss attributable to Avalon Globocare Corp. common shareholders	\$ (2,780,244)	\$ (135,830)	\$ (2,916,074)
Net loss per common share attributable to Avalon Globocare Corp. common shareholders:	\$ (0.28)	\$ (0.01)	\$ (0.29)

Six months ended June 30, 2023

During the six months ended June 30, 2023, the Company misstated the equity method investment and income from equity method investments. The impact of these errors was an overstatement of total assets and total equity by approximately \$340,000 and an overstatement of income from equity method investment — Lab Services MSO of approximately \$204,000 and \$340,000 for the three and six months ended June 30, 2023, respectively. These errors did not have any impact on consolidated cash flow. The Company’s June 30, 2023 financial statements have been restated for the impact of these adjustments as follows:

	As Reported	Adjustment	As Restated
Condensed Consolidated Balance Sheet As of June 30, 2023			
Equity method investments, net	\$ 21,355,134	\$ (339,574)	\$ 21,015,560
Total assets	\$ 30,570,584	\$ (339,574)	\$ 30,231,010
Accumulated deficit	\$ (68,389,948)	\$ (339,574)	\$ (68,729,522)
Total equity	\$ 18,151,313	\$ (339,574)	\$ 17,811,739
Total liabilities and equity	\$ 30,570,584	\$ (339,574)	\$ 30,231,010

AVALON GLOBOCARE CORP. AND SUBSIDIARIES

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NOTE 16 — RESTATEMENTS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (continued)

Six months ended June 30, 2023 (continued)

	As Reported	Adjustment	As Restated
Condensed Consolidated Statement of Operations and Comprehensive Loss for the Three Months Ended June 30, 2023			
Income from equity method investment - Lab Services MSO	\$ 308,395	\$ (203,744)	\$ 104,651
Loss from operations	\$ (1,864,624)	\$ (203,744)	\$ (2,068,368)
Loss before income taxes	\$ (2,543,313)	\$ (203,744)	\$ (2,747,057)
Net loss	\$ (2,543,313)	\$ (203,744)	\$ (2,747,057)
Net loss attributable to Avalon Globocare Corp. common shareholders	\$ (2,543,313)	\$ (203,744)	\$ (2,747,057)
Comprehensive loss	\$ (2,554,324)	\$ (203,744)	\$ (2,758,068)
Comprehensive loss attributable to Avalon Globocare Corp. common shareholders	\$ (2,554,324)	\$ (203,744)	\$ (2,758,068)
Net loss per common share attributable to Avalon Globocare Corp. common shareholders:	\$ (0.25)	\$ (0.02)	\$ (0.27)

	As Reported	Adjustment	As Restated
Condensed Consolidated Statement of Operations and Comprehensive Loss for the Six Months Ended June 30, 2023			
Income from equity method investment - Lab Services MSO	\$ 355,134	\$ (339,574)	\$ 15,560
Loss from operations	\$ (4,482,121)	\$ (339,574)	\$ (4,821,695)
Loss before income taxes	\$ (5,327,227)	\$ (339,574)	\$ (5,666,801)
Net loss	\$ (5,327,227)	\$ (339,574)	\$ (5,666,801)
Net loss attributable to Avalon Globocare Corp. common shareholders	\$ (5,327,227)	\$ (339,574)	\$ (5,666,801)
Comprehensive loss	\$ (5,334,568)	\$ (339,574)	\$ (5,674,142)
Comprehensive loss attributable to Avalon Globocare Corp. common shareholders	\$ (5,334,568)	\$ (339,574)	\$ (5,674,142)
Net loss per common share attributable to Avalon Globocare Corp. common shareholders:	\$ (0.52)	\$ (0.04)	\$ (0.56)

NOTE 17 — SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the financial statements were issued. Based upon this review, other than as described below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

October 2023 Convertible Note Financing

In October 2023, the Company entered into securities purchase agreements with certain lenders (the "October 2023 Lenders") and closed on the issuance of 13.0% senior secured convertible promissory notes in the aggregate principal amount of \$700,000 (the "October 2023 Note"), as well as the issuance of 70,000 shares of common stock as a commitment fee and warrants for the purchase of up to 105,000 shares of the Company's common stock. The Company and its subsidiaries have also entered into security agreements, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the October 2023 Note.

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

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "will," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "point to," "project," "predict," "could," "intend," "target," "potential" and other similar words and expressions of the future. Accordingly, factors that may affect our results include, but are not limited to:

- our dependence on product candidates that are still in an early development stage;
- our ability to successfully complete research and further development, including preclinical and clinical studies;
- our anticipated timing for preclinical development, regulatory submissions, commencement and completion of clinical trials and product approvals;
- our ability to negotiate strategic partnerships, where appropriate, for our product candidates;
- our ability to manage multiple clinical trials for a variety of product candidates at different stages of development;
- the cost, timing, scope and results of ongoing preclinical and clinical testing;
- our expectations of the attributes of our product and development candidates, including pharmaceutical properties, efficacy, safety and dosing regimens;
- the cost, timing and uncertainty of obtaining regulatory approvals for our product candidates;
- the availability, cost, delivery and quality of clinical management services provided by our clinical research organization partners;
- the availability, cost, delivery and quality of clinical and commercial-grade materials produced by our own manufacturing facility or supplied by contract manufacturers, suppliers and partners;
- our ability to commercialize our product candidates and the growth of the markets for those product candidates;
- our ability to develop and commercialize products before competitors that are superior to the alternatives developed by such competitors;
- our ability to develop technological capabilities, including identification of novel and clinically important targets, exploiting our existing technology platforms to develop new product candidates and expand our focus to broader markets for our existing targeted therapeutics;
- our ability to raise sufficient capital to fund our preclinical and clinical studies and to meet our long-term liquidity needs, on terms acceptable to us, or at all. If we are unable to raise the funds necessary to meet our long-term liquidity needs, we may have to delay or discontinue the development of one or more programs, discontinue or delay ongoing or anticipated clinical trials, discontinue or delay our commercial manufacturing efforts, discontinue or delay our efforts to expand into additional indications for our product candidates, license out programs earlier than expected, raise funds at significant discount or on other unfavorable terms, if at all, or sell all or part of our business;
- our ability to protect our intellectual property rights and our ability to avoid intellectual property litigation, which can be costly and divert management time and attention;
- our ability to develop and commercialize products without infringing upon the intellectual property rights of third parties;
- heightened competition from commercial clinical testing companies, IDNs, physicians and others;

- increased pricing pressure from customers, including payers and patients, and changing relationships with customers, payers, suppliers or strategic partners;
- impact of changes in payment mix, including increased patient financial responsibility and any shift from fee-for-service to discounted, capitated or bundled fee arrangements;
- adverse actions by the government, including healthcare reform that focuses on reducing healthcare costs but does not recognize the value and importance to healthcare of clinical testing or innovative solutions, unilateral reduction of fee schedules payable to us, unilateral recoupment of amounts allegedly owed and competitive bidding;
- the impact of increased prior authorization programs;
- adverse results from pending or future government investigations, lawsuits or private actions, which include in particular, monetary damages, loss or suspension of licenses or criminal penalties;
- the impact of the COVID-19 pandemic on our business or on the economy generally; and
- a decline in economic conditions, including the impact of an inflationary environment.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith, and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

The following discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2023 and 2022 should be read in conjunction with our condensed consolidated financial statements and related notes to those condensed consolidated financial statements that are included elsewhere in this report.

Overview

The Company is dedicated to developing and delivering innovative, transformative, precision diagnostics and clinical laboratory services. Our main strategy is to acquire ownership or license rights in precision diagnostic assets, genetic testing and clinical laboratory companies through joint ventures, share ownership structures or distribution rights. We plan to play a leading role in the innovation of diagnostic testing, utilizing proprietary technology to deliver precise, genetics-driven results. As a first major step into the laboratory market, we completed an acquisition of a 40% membership interest in Laboratory Services MSO, LLC (“Lab Services MSO”), which closed in February 2023.

We have the following areas of focus:

Laboratory Acquisitions

We have embarked on a laboratory rollup strategy focused on forming joint ventures and acquiring laboratories that are accretive to our commercial strategy. As a first step, in February of 2023, we acquired a 40% membership interest in Lab Services MSO.

- Lab Services MSO is focused on delivering high quality services related to toxicology and wellness testing and provides a broad portfolio of diagnostic tests, including drug testing, toxicology, and a broad array of test services, from general bloodwork to anatomic pathology, and urine toxicology. Specific capabilities include STAT blood testing, qualitative drug screening, genetic testing, urinary testing, and sexually transmitted disease testing. The panels that Lab Services MSO tests for are thyroid panel, comprehensive metabolic panel, kidney profile, liver function tests, and other individual tests. Through Lab Services MSO, we use fast, accurate, and efficient equipment to provide practitioners with the tools to quickly determine if a patient is following their designated treatment plan. In most instances, we are able to provide a practitioner with qualitative drug class results the same day the sample is received. Lab Services MSO provides a menu of extensive chemistry tests that physicians can use to obtain information to better treat their patients and maintain their overall wellness. Lab Services MSO has developed a premier reputation for customer service and fast turnaround times.
- Lab Services MSO is also focused on commercialization of genetic-based proprietary testing. The first area of focus in this area is confirmatory genetic testing during toxicology screening and genetic testing to screen for addictive propensity. Lab Services MSO laboratory plans to focus on diagnostic testing utilizing proprietary technology to deliver precise genetic driven results.

- In the third quarter of 2023, Lab Services MSO acquired Merlin Technologies, Inc. which is a medical equipment retail company.
- Lab Services MSO plans to open a new laboratory, Veritas Laboratories LLC (“Veritas”). Veritas is a CLIA-certified and COLA-accredited laboratory located in Scottsdale, Arizona that offers a wide range of high-quality testing, including drug testing, genetic testing, urinary testing and COVID-19 PCR testing.

Product Commercialization

We are exploring the commercialization and development of a versatile breathalyzer system.

- The KetoAir breathalyzer is a handheld device that allows the user to detect acetone levels in exhaled breath. The acetone level is in concentration units (ppm, part-per-million) such that the user will know his/her real-time ketosis status: inadequate ketosis (0-3.99 ppm), mild ketosis (4-9.99 ppm), optimal ketosis (10-40 ppm), or alarming level (> 40 ppm). The breathalyzer is registered with the United States FDA as a Class I medical device. The device is also paired with an “AI Nutritionist” software program (via Bluetooth connection) which is downloadable from Google Play (for Android mobile phones, approved) and iPhone (the app is currently being reviewed by Apple iOS AppStore). It helps users monitor and manage their ketogenic diet and related programs. We believe the KetoAir breathalyzer can be an essential tool to help diabetic patients adhere to their therapeutic programs and optimize their ketogenic dietary management.
- We were granted exclusive distributorship rights for the KetoAir breathalyzer in the following territories: North America, South America, the EU and the UK. We had a pilot launch and exhibition of the KetoAir breathalyzer in this year’s KetoCon conference in Austin, Texas (April 21-23, 2023). For our commercialization strategy, we intend to target the diabetes and obesity markets. We are evaluating options for commercialization, including identifying distribution partners or distributing KetoAir ourselves.

Research and Development

- We are focused on bringing forward intellectual property through joint patent filings with the Massachusetts Institute of Technology (MIT). We completed a sponsored research and co-development project with MIT led by Professor Shuguang Zhang as Principal Investigator. Using the unique QTY code protein design platform, six water-soluble variant cytokine receptors have been successfully designed and tested to show binding affinity to the respective cytokines. We currently are focused on bringing forward the intellectual property associated with this program through joint patent submissions.

Other Areas

In order to preserve cash and focus on our core laboratory rollup strategy and product commercialization, we have currently suspended all research and development efforts related to cellular therapy in order to redirect our funding efforts to our core business strategies outlined above.

Going Concern

The Company is a commercial stage company dedicated to developing and delivering innovative, transformative, precision diagnostics and clinical laboratory services. The Company is establishing a leading role in the innovation of diagnostic testing, utilizing proprietary technology to deliver precise, genetics-driven results. The Company also provides laboratory services, offering a broad portfolio of diagnostic tests including drug testing, toxicology, and a broad array of test services, from general bloodwork to anatomic pathology, and urine toxicology.

In addition, the Company owns commercial real estate that houses its headquarters in Freehold, New Jersey. The Company also has income from equity method investment through its forty percent (40%) interest in Lab Services MSO. These condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

As reflected in the accompanying condensed consolidated financial statements, the Company had working capital deficit of approximately \$5,828,000 at September 30, 2023 and had incurred recurring net losses and generated negative cash flow from operating activities of approximately \$7,152,000 and \$5,708,000 for the nine months ended September 30, 2023, respectively.

The Company has a limited operating history and its continued growth is dependent upon the continuation of generating rental revenue from its income-producing real estate property in New Jersey and income from equity method investment through its forty percent (40%) interest in Lab Services MSO and obtaining additional financing to fund future obligations and pay liabilities arising from normal business operations. In addition, the current cash balance cannot be projected to cover the operating expenses for the next twelve months from the release date of this report. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital, implement its business plan, and generate significant revenues. There are no assurances that the Company will be successful in its efforts to generate significant revenues, maintain sufficient cash balance or report profitable operations or to continue as a going concern. The Company plans on raising capital through the sale of equity to implement its business plan. However, there is no assurance these plans will be realized and that any additional financings will be available to the Company on satisfactory terms and conditions, if any.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Critical Accounting Policies

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in these estimates and assumptions may have a material impact on the consolidated financial statements and accompanying notes. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

Significant estimates during the three and nine months ended September 30, 2023 and 2022 include the valuation of deferred tax assets and the associated valuation allowances, the valuation of stock-based compensation, the assumptions used to determine fair value of warrants and embedded conversion features of convertible note payable, and the fair value of the consideration given and assets acquired in the purchase of 40% of Lab Services MSO.

Investment in Unconsolidated Companies

The Company uses the equity method of accounting for its investments in, and earning or loss of, companies that it does not control but over which it does exert significant influence. The Company considers whether the fair values of its equity method investments have declined below their carrying values whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write-down would be recorded to estimated fair value. Impairment of equity method investment amounted to \$464,406 for the nine months ended September 30, 2023. See Note 5 for discussion of equity method investments.

Real Property Rental

The Company has determined that the ASC 606 does not apply to rental contracts, which are within the scope of other revenue recognition accounting standards.

Rental income from operating leases is recognized on a straight-line basis under the guidance of ASC 842. Lease payments under tenant leases are recognized on a straight-line basis over the term of the related leases. The cumulative difference between lease revenue recognized under the straight-line method and contractual lease payments are included in rent receivable on the consolidated balance sheets.

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers.

Income Taxes

We are governed by the income tax laws of China and the United States. Income taxes are accounted for pursuant to ASC 740 "Accounting for Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. The charge for taxes is based on the results for the period as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is charged to equity. Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and we intend to settle its current tax assets and liabilities on a net basis.

Recent Accounting Standards

For details of applicable new accounting standards, please, refer to Recent Accounting Standards in Note 3 of our condensed consolidated financial statements accompanying this report.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2023 and 2022

Real Property Rental Revenue

For the three months ended September 30, 2023, we had real property rental revenue of \$331,290, as compared to \$317,390 for the three months ended September 30, 2022, an increase of \$13,900, or 4.4%. For the nine months ended September 30, 2023, we had real property rental revenue of \$934,360, as compared to \$905,842 for the nine months ended September 30, 2022, an increase of \$28,518, or 3.1%. The increase was primarily attributable to the increase of tenants in the three and nine months ended September 30, 2023. We expect that our revenue from real property rent will remain at its current quarterly level with minimal increase in the near future.

Real Property Operating Expenses

Real property operating expenses consist of property management fees, property insurance, real estate taxes, depreciation, repairs and maintenance fees, utilities and other expenses related to our rental properties.

For the three months ended September 30, 2023, our real property operating expenses amounted to \$288,083, as compared to \$247,152 for the three months ended September 30, 2022, an increase of \$40,931, or 16.6%. The increase was mainly due to an increase in repairs and maintenance fee of approximately \$35,000, and an increase in other miscellaneous items of approximately \$6,000.

For the nine months ended September 30, 2023, our real property operating expenses amounted to \$781,931, as compared to \$677,303 for the nine months ended September 30, 2022, an increase of \$104,628 or 15.4%. The increase was mainly due to an increase in property management fees of approximately \$15,000, an increase in repairs and maintenance fee of approximately \$71,000, an increase in utilities of approximately \$15,000, and an increase in other miscellaneous items of approximately \$4,000.

Real Property Operating Income

Our real property operating income for the three months ended September 30, 2023 was \$43,207, representing a decrease of \$27,031 or 38.5%, as compared to \$70,238 for the three months ended September 30, 2022. Our real property operating income for the nine months ended September 30, 2023 was \$152,429, representing a decrease of \$76,110 or 33.3%, as compared to \$228,539 for the nine months ended September 30, 2022. The decrease was primarily attributable to the increase in real property operating expenses as described above. We expect our real property operating income will remain at its current quarterly level with minimal increase in the near future.

Income from Equity Method Investment — Lab Services MSO

For the three and nine months ended September 30, 2023, we had income from our investment in Lab Services MSO of \$354,500 and \$370,060, respectively, which represents our share of Lab Services MSO's net income. We purchased 40% of Lab Services MSO on February 9, 2023. In the third quarter of 2023, Lab Services MSO acquired Merlin Technologies, Inc. which is a medical equipment retail company. Lab Services MSO plans to open a new laboratory, Veritas Laboratories LLC ("Veritas"). Veritas is a CLIA-certified and COLA-accredited laboratory located in Scottsdale, Arizona that offers a wide range of high-quality testing, including drug testing, genetic testing, urinary testing and COVID-19 PCR testing. We expect that our income from our investment in Lab Services MSO will continue to increase in the near future since Lab Services MSO has a strong earnings growth potential.

Other Operating Expenses

For the three and nine months ended September 30, 2023 and 2022, other operating expenses consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Advertising and marketing expenses	\$ 437,750	\$ 150,620	\$ 1,634,720	\$ 807,821
Professional fees	435,144	628,807	2,659,895	1,886,562
Compensation and related benefits	469,959	488,373	1,375,637	1,514,959
Research and development	-	170,406	110,160	541,566
Litigation settlement	-	-	-	1,350,000
Directors and officers liability insurance premium	72,835	103,787	280,438	310,955
Travel and entertainment	61,631	40,662	179,583	120,224
Rent and related utilities	15,338	18,938	48,599	59,150
Other general and administrative	46,186	57,744	196,288	196,914
	<u>\$ 1,538,843</u>	<u>\$ 1,659,337</u>	<u>\$ 6,485,320</u>	<u>\$ 6,788,151</u>

- For the three months ended September 30, 2023, advertising and marketing expenses increased by \$287,130 or 190.6% as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, advertising and marketing expenses increased by \$826,899 or 102.4% as compared to the nine months ended September 30, 2022. The increase was primarily due to increased advertising activities to enhance the visibility and marketability of our company and to improve brand recognition and awareness. We expect that our advertising and marketing expenses will remain in its current quarterly level with minimal increase in the near future.
- Professional fees primarily consisted of accounting fees, audit fees, legal service fees, consulting fees, investor relations service charges and other fees. For the three months ended September 30, 2023, professional fees decreased by \$193,663, or 30.8%, as compared to the three months ended September 30, 2022, which was primarily attributable to a decrease in legal service fees of approximately \$201,000 mainly due to the decreased legal services related to our purchase of 40% of Lab Services MSO, offset by an increase in other miscellaneous items of approximately \$7,000. For the nine months ended September 30, 2023, professional fees increased by \$773,333, or 41.0%, as compared to the nine months ended September 30, 2022, which was primarily attributable to an increase in consulting fees of approximately \$278,000 mainly due to the increase in use of consulting service providers related to our purchase of 40% of Lab Services MSO, an increase in audit fees of approximately \$241,000 due to the increased audit services related to our purchase of 40% of Lab Services MSO, and an increase in accounting fees of approximately \$531,000 mainly due to the increased accounting services related to our purchase of 40% of Lab Services MSO, offset by a decrease in investor relations service charges of approximately \$161,000 resulting from the decrease in investor relations service providers, a decrease in legal service fees of approximately \$101,000 mainly due to the decreased legal services related to our purchase of 40% of Lab Services MSO, and a decrease in other miscellaneous items of approximately \$15,000. We expect that our professional fees will decrease in the near future.
- For the three months ended September 30, 2023, compensation and related benefits decreased by \$18,414, or 3.8%, as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, compensation and related benefits decreased by \$139,322, or 9.2%, as compared to the nine months ended September 30, 2022. The decrease was primarily attributable to the decrease in stock-based compensation which reflected the value of options granted and vested to our management. We expect that our compensation and related benefits will remain in its current quarterly level with minimal increase in the near future.

- For the three months ended September 30, 2023, research and development expenses decreased by \$170,406, or 100.0%, as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, research and development expenses decreased by \$431,406, or 79.7%, as compared to the nine months ended September 30, 2022. The decrease was mainly attributable to our decreased activity with respect to research and development projects in the three and nine months ended September 30, 2023. We expect that we will not incur any research and development expenses in the near future.
- For the three months ended September 30, 2023 and 2022, we did not have any litigation settlement. For the nine months ended September 30, 2023, litigation settlement decreased by \$1,350,000, or 100.0%, as compared to the nine months ended September 30, 2022. The decrease was due to a settlement signed in June 2022.
- For the three months ended September 30, 2023, Directors and Officers Liability Insurance premium decreased by \$30,952, or 29.8%, as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, Directors and Officers Liability Insurance premium decreased by \$30,517, or 9.8%, as compared to the nine months ended September 30, 2022.
- For the three months ended September 30, 2023, travel and entertainment expense increased by \$20,969, or 51.6%, as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, travel and entertainment expense increased by \$59,359, or 49.4%, as compared to the nine months ended September 30, 2022. The increase was mainly due to increased business travel activities for seeking strategic partners in the three and nine months ended September 30, 2023.
- For the three months ended September 30, 2023, rent and related utilities expenses decreased by \$3,600, or 19.0%, as compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, rent and related utilities expenses decreased by \$10,551, or 17.8%, as compared to the nine months ended September 30, 2022. The decrease was attributable to decreased rental rate in the three and nine months ended September 30, 2023.
- Other general and administrative expenses mainly consisted of NASDAQ listing fee, office supplies, miscellaneous taxes, and other miscellaneous items. For the three months ended September 30, 2023, other general and administrative expenses decreased by \$11,558, or 20.0%, as compared to the three months ended September 30, 2022, driven by our efforts at stricter controls on corporate expenditure. For the nine months ended September 30, 2023, other general and administrative expenses decreased by \$626, or 0.3%, as compared to the nine months ended September 30, 2022.

Loss from Operations

As a result of the foregoing, for the three months ended September 30, 2023, loss from operations amounted to \$1,141,136, as compared to \$1,589,099 for the three months ended September 30, 2022, a decrease of \$447,963 or 28.2%. As a result of the foregoing, for the nine months ended September 30, 2023, loss from operations amounted to \$5,962,831, as compared to \$6,559,612 for the nine months ended September 30, 2022, a decrease of \$596,781 or 9.1%.

Other (Expense) Income

Other (expense) income mainly includes third party and related party interest expense, conversion inducement expense, loss from equity method investment - Epicon, change in fair value of derivative liability, impairment of equity method investment, and other miscellaneous income.

Other expense, net, totaled \$343,939 for the three months ended September 30, 2023, as compared to \$3,825,055 for the three months ended September 30, 2022, a decrease of \$3,481,116, or 91.0%, which was primarily attributable to a decrease in third party interest expense of approximately \$2,867,000 mainly driven by the decrease in amortization of debt discount and debt issuance cost of approximately \$3,049,000 which was offset by the increased interest expense of approximately \$182,000 from third party debts in the third quarter of 2023, a decrease in conversion inducement expense of approximately \$344,000 resulted from the reduction in the conversion price which was incurred in the third quarter of 2022, a decrease in change in fair value of derivative liability of approximately \$256,000, and a decrease in other miscellaneous items of approximately \$14,000.

Other expense, net, totaled \$1,189,045 for the nine months ended September 30, 2023, as compared to \$2,953,554 for the nine months ended September 30, 2022, a decrease of \$1,764,509, or 59.7%, which was primarily attributable to a decrease in third party interest expense of approximately \$2,539,000 mainly driven by the decrease in amortization of debt discount and debt issuance cost of approximately \$3,013,000 which was offset by the increased interest expense of approximately \$474,000 from third party debts in the nine months ended September 30, 2023, and a decrease in conversion inducement expense of approximately \$344,000 resulted from the reduction in the conversion price which was incurred in the nine months ended September 30, 2022, offset by a decrease in gain from change in fair value of derivative liability of approximately \$472,000, an increase in impairment of equity method investment of approximately \$464,000, and a decrease in other miscellaneous items of approximately \$182,000, which was mainly driven by the decrease in reagent sale.

Income Taxes

We did not have any income taxes expense for the three and nine months ended September 30, 2023 and 2022 since we incurred losses in these periods.

Net Loss

As a result of the factors described above, our net loss was \$1,485,075 for the three months ended September 30, 2023, as compared to \$5,414,154 for the three months ended September 30, 2022, a decrease of \$3,929,079 or 72.6%. As a result of the factors described above, our net loss was \$7,151,876 for the nine months ended September 30, 2023, as compared to \$9,513,166 for the nine months ended September 30, 2022, a decrease of \$2,361,290 or 24.8%.

Net Loss Attributable to Avalon GloboCare Corp. Common Shareholders

The net loss attributable to Avalon GloboCare Corp. common shareholders was \$1,485,075 or \$0.14 per share (basic and diluted) for the three months ended September 30, 2023, as compared with \$5,414,154 or \$0.56 per share (basic and diluted) for the three months ended September 30, 2022, a decrease of \$3,929,079 or 72.6%. The net loss attributable to Avalon GloboCare Corp. common shareholders was \$7,151,876 or \$0.69 per share (basic and diluted) for the nine months ended September 30, 2023, as compared with \$9,513,166 or \$1.04 per share (basic and diluted) for the nine months ended September 30, 2022, a decrease of \$2,361,290 or 24.8%.

Foreign Currency Translation Adjustment

Our reporting currency is the U.S. dollar. The functional currency of our parent company, AHS, Avalon RT 9, Genexosome, Avactis, and Exosome, is the U.S. dollar and the functional currency of Avalon Shanghai is the Chinese Renminbi (“RMB”). The financial statement of our subsidiary whose functional currency is the RMB are translated to U.S. dollars using period end rate of exchange for assets and liabilities, average rate of exchange for revenues, costs, and expenses and cash flows, and at historical exchange rate for equity. Net gains and losses resulting from foreign exchange transactions are included in the results of operations. As a result of foreign currency translations, which are a non-cash adjustment, we reported a foreign currency translation loss of \$8,685 and \$37,033 for the three months ended September 30, 2023 and 2022, respectively. As a result of foreign currency translations, which are a non-cash adjustment, we reported a foreign currency translation loss of \$16,026 and \$78,515 for the nine months ended September 30, 2023 and 2022, respectively. This non-cash loss had the effect of increasing our reported comprehensive loss.

Comprehensive Loss

As a result of our foreign currency translation adjustment, we had comprehensive loss of \$1,493,760 and \$5,451,187 for the three months ended September 30, 2023 and 2022, respectively. As a result of our foreign currency translation adjustment, we had comprehensive loss of \$7,167,902 and \$9,591,681 for the nine months ended September 30, 2023 and 2022, respectively.

Liquidity and Capital Resources

The Company has a limited operating history and its continued growth is dependent upon the continuation of generating rental revenue from its income-producing real estate property in New Jersey and income from equity method investment through its forty percent (40%) interest in Lab Services MSO and obtaining additional financing to fund future obligations and pay liabilities arising from normal business operations. In addition, the current cash balance cannot be projected to cover the operating expenses for the next twelve months from the release date of this report. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company’s ability to raise additional capital, implement its business plan, and generate significant revenues. There are no assurances that the Company will be successful in its efforts to generate significant revenues, maintain sufficient cash balance or report profitable operations or to continue as a going concern. As described below, the Company has raised additional capital through the sale of equity and debt and the Company plans on raising additional capital in the future through the sale of equity or debt to implement its business plan. However, there is no assurance these plans will be realized and that any additional financings will be available to the Company on satisfactory terms and conditions, if any.

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. At September 30, 2023 and December 31, 2022, we had cash balance of approximately \$342,000 and \$1,991,000, respectively. These funds are kept in financial institutions located as follows:

Country:	September 30, 2023		December 31, 2022	
United States	\$ 321,899	94.2%	\$ 1,806,083	90.7%
China	19,872	5.8%	184,827	9.3%
Total cash	\$ 341,771	100.0%	\$ 1,990,910	100.0%

Under the applicable People’s Republic of China (“PRC”) regulations, foreign invested enterprises, or FIEs, in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, an FIE in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends.

In addition, a small portion of our assets are denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of our PRC subsidiary to transfer its net assets to the Parent Company through loans, advances or cash dividends.

The current PRC Enterprise Income Tax ("EIT") Law and its implementing rules generally provide that a 10% withholding tax applies to China-sourced income derived by non-resident enterprises for PRC enterprise income tax purposes unless the jurisdiction of incorporation of such enterprises' shareholder has a tax treaty with China that provides for a different withholding arrangement.

The following table sets forth a summary of changes in our working capital deficit from December 31, 2022 to September 30, 2023:

	September 30, 2023	December 31, 2022	Changes in	
			Amount	Percentage
Working capital deficit:				
Total current assets	\$ 864,035	\$ 2,373,526	\$ (1,509,491)	(63.6)%
Total current liabilities	6,691,825	3,579,805	3,112,020	86.9%
Working capital deficit	<u>\$ (5,827,790)</u>	<u>\$ (1,206,279)</u>	<u>\$ (4,621,511)</u>	<u>383.1%</u>

Our working capital deficit increased by \$4,621,511 to \$5,827,790 at September 30, 2023 from \$1,206,279 at December 31, 2022. The increase in working capital deficit was primarily attributable to a decrease in cash of approximately \$1,649,000, an increase in accrued payroll liability and compensation of approximately \$162,000, an increase in accrued liabilities and other payables of approximately \$100,000, an increase in operating lease obligation of approximately \$113,000, an increase in equity method investment payable of \$1,000,000 resulting from the purchase of 40% of Lab Services MSO incurred in February 2023, an increase in convertible note payable, net, of approximately \$1,526,000 resulting from the issuance of May 2023 Convertible Note and July 2023 Convertible Note, offset by an increase in prepaid expense and other current assets of approximately \$158,000 which was mainly attributable to the increase in deferred financing costs of approximately \$90,000 and the increase in prepaid NASDAQ listing fee of approximately \$25,000 and the increase in other miscellaneous items of approximately \$43,000.

Because the exchange rate conversion is different for the condensed consolidated balance sheets and the condensed consolidated statements of cash flows, the changes in assets and liabilities reflected on the condensed consolidated statements of cash flows are not necessarily identical with the comparable changes reflected on the condensed consolidated balance sheets.

Cash Flows for the Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

The following summarizes the key components of our cash flows for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended	
	September 30,	
	2023	2022
Net cash used in operating activities	\$ (5,708,402)	\$ (5,072,932)
Net cash used in investing activities	(22,171)	(54,743)
Net cash provided by financing activities	4,091,323	8,263,989
Effect of exchange rate on cash	(9,889)	(5,893)
Net (decrease) increase in cash	<u>\$ (1,649,139)</u>	<u>\$ 3,130,421</u>

Net cash flow used in operating activities for the nine months ended September 30, 2023 was \$5,708,402, which primarily reflected our consolidated net loss of approximately \$7,152,000, and the changes in operating assets and liabilities, primarily consisting of a decrease in accrued liabilities and other payables of approximately \$140,000 due to payments made to vendors in the nine months ended September 30, 2023, and the non-cash items adjustment, primarily consisting of income from equity method investment of approximately \$351,000 resulting from our purchase of a 40% equity interest in Lab Services MSO in February 2023, and change in fair market value of derivative liability of approximately \$129,000, offset by depreciation of approximately \$167,000, stock-based compensation and service expense of approximately \$1,056,000, impairment of equity method investment of approximately \$464,000, and amortization of debt issuance costs and debt discount of approximately \$291,000.

Net cash flow used in operating activities for the nine months ended September 30, 2022 was \$5,072,932, which primarily reflected our consolidated net loss of approximately \$9,513,000, and the non-cash item adjustment consisting of change in fair market value of derivative liability of approximately \$601,000, and the changes in operating assets and liabilities, primarily consisting of an increase in prepaid expense and other assets of approximately \$66,000, a decrease in operating lease obligation of approximately \$108,000, offset by an increase in accounts payable of approximately \$87,000, an increase in accrued liabilities and other payables of approximately \$63,000, an increase in accrued liabilities and other payables — related parties of approximately \$80,000, and the non-cash items adjustment primarily consisting of depreciation of approximately \$251,000, amortization of operating lease right-of-use asset of approximately \$102,000, stock-based compensation and service expense of approximately \$983,000, amortization of debt issuance costs and debt discount of approximately \$3,303,000 mainly resulting from the conversion of convertible debt in July 2022, and conversion inducement expense of approximately \$344,000 resulted from the reduction in the conversion price.

We expect our cash used in operating activities to increase due to the following:

- the development and commercialization of new products;
- an increase in professional staff and services; and
- an increase in public relations and/or sales promotions for existing and/or new brands as we expand within existing markets or enter new markets.

Net cash flow used in investing activities was \$22,171 for the nine months ended September 30, 2023 as compared to \$54,743 for the nine months ended September 30, 2022. During the nine months ended September 30, 2023, we made payment for purchase of property and equipment of approximately \$22,000. During the nine months ended September 30, 2022, we made payments for purchase of property and equipment of approximately \$2,000 and made additional investment in equity method investment of approximately \$53,000.

Net cash flow provided by financing activities was \$4,091,323 for the nine months ended September 30, 2023 as compared to \$8,263,989 for the nine months ended September 30, 2022. During the nine months ended September 30, 2023, we received proceeds from related party borrowings of \$850,000, and net proceeds from issuance of convertible debt and warrants of approximately \$1,690,000 (net of original issue discount of \$100,000 and cash paid for convertible note issuance costs of approximately \$211,000), and net proceeds from issuance of balloon promissory note of approximately \$936,000 (net of cash paid for promissory note issuance costs of approximately \$64,000), and net proceeds from equity offering of approximately \$616,000 (net of cash paid for commission and other offering costs of approximately \$19,000). During the nine months ended September 30, 2022, we received proceeds from related party borrowings of \$100,000, and proceeds from issuance of convertible debt and warrants of approximately \$3,719,000, and net proceeds from issuance of balloon promissory note of \$4,534,000 (net of cash paid for debt issuance costs of approximately \$266,000), and net proceeds from equity offering of approximately \$712,000 (net of cash paid for commission and other offering costs of approximately \$24,000) to fund our working capital needs, offset by repayments made for note payable — related party of \$390,000 and repayments made for loan payable — related party of \$410,000.

The following trends are reasonably likely to result in a material decrease in our liquidity over the near to long term:

- an increase in working capital requirements to finance our current business;
- the use of capital for acquisitions and the development of business opportunities; and
- the cost of being a public company.

August 2019 Credit Facility

In the third quarter of 2019, we had secured a \$20 million credit facility (Line of Credit) provided by our Chairman, Wenzhao Lu. The unsecured credit facility bears interest at a rate of 5% and provides for maturity on drawn loans 36 months after funding. As of September 30, 2023, the total principal amount outstanding under the Credit Line was \$850,000 and we used approximately \$6.8 million of the credit facility and have approximately \$13.2 million remaining available under the Line Credit.

ATM

In June 2023, the Company entered into a sales agreement (the “Sales Agreement”) with Roth Capital Partners, LLC (“Roth”) under which the Company may offer and sell from time to time shares of its common stock having an aggregate offering price of up to \$3.5 million. From July 1, 2023 to November 13, 2023, Roth has sold an aggregate of 456,627 shares of common stock of the Company at an average price of \$1.39 per share to investors. The Company received net cash proceeds of \$616,259, net of cash paid for sales agent’s commission and other fees of \$19,132.

Balloon Mortgage Note

In May 2023, the Company, through Avalon RT9 Properties, LLC (“Avalon RT9”), executed a balloon mortgage note in favor of a lender (the “Lender”) in the original principal amount of \$1,000,000 (the “Balloon Mortgage Note”). The Balloon Mortgage Note accrues interest at the annual rate of 13.0% and is paid in monthly installments of interest-only in the amount of \$10,833 commencing in June 2023 and continuing through October 2025 (at which point any unpaid balance of principal, interest and other charges become due and payable). The Balloon Mortgage Note is secured by a second-lien mortgage on the Company’s real property in Monmouth County, New Jersey. In addition, the Company and Avalon RT9 executed a guaranty related to the Balloon Mortgage Note.

May 2023 Convertible Note Financing

In May 2023, the Company entered into a securities purchase agreement with certain lenders (the “May 2023 Lenders”) and closed on the issuance of a 13.0% senior secured convertible promissory note in the aggregate principal amount of \$1,500,000 (the “May 2023 Note”), as well as the issuance of 75,000 shares of common stock as a commitment fee and warrants for the purchase of up to 230,000 shares of the Company’s common stock. The Company and its subsidiaries have also entered into a security agreement, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the May 2023 Note. The May 2023 Lenders acquired the May 2023 Note for \$1,425,000 after an original issue discount of \$75,000. The May 2023 Note matures on May 23, 2024 and accrues interest at a rate of 13.0% per annum. The May 2023 Note contains certain negative covenants. If the May 2023 Note is accelerated following the occurrence of an event of default as described in such note, the Company is required to pay 120% of the principal and interest outstanding under the May 2023 Note. The principal amount and interest under the May 2023 Note is convertible into shares of the Company’s common stock at a conversion price of \$4.50 per share, unless the Company fails to make an amortization payment when due in accordance with the terms of the May 2023 Note, in which case the conversion price shall be the lower of (i) \$4.50 or (ii) 85% of the lowest VWAP of the Company’s common stock on any trading day during the five (5) trading days prior to the respective conversion date, subject to a floor of \$1.50 per share. The warrants are comprised of (i) a warrant to purchase 125,000 shares of the Company’s common stock at an exercise price of \$4.50 and exercisable until May 23, 2028 and (ii) a warrant to purchase 105,500 shares of the Company’s common stock at an exercise price of \$3.20 and exercisable until May 23, 2028 (which warrant shall be cancelled and extinguished upon the payment of the May 2023 Note). The conversion price of the May 2023 Note and the exercise price of the warrants issued thereunder contain certain price protection anti-dilution adjustments if an event of default occurs under the May 2023 Notes.

July 2023 Convertible Note Financing

In July 2023, the Company entered into a securities purchase agreement with certain lenders (the “July 2023 Lenders”) and closed on the issuance of a 13.0% senior secured convertible promissory note in the aggregate principal amount of \$500,000 (the “July 2023 Note”), as well as the issuance of 25,000 shares of common stock as a commitment fee and warrants for the purchase of up to 76,830 shares of the Company’s common stock. The Company and its subsidiaries have also entered into a security agreement, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the July 2023 Note. The July 2023 Lenders acquired the July 2023 Note for \$475,000 after an original issue discount of \$25,000. The July 2023 Note matures on July 6, 2024 and accrues interest at a rate of 13.0% per annum. The July 2023 Note contains certain negative covenants. If the July 2023 Note is accelerated following the occurrence of an event of default as described in such note, the Company is required to pay 120% of the principal and interest outstanding under the July 2023 Note. The principal amount and interest under the July 2023 Note is convertible into shares of the Company’s common stock at a conversion price of \$4.50 per share, unless the Company fails to make an amortization payment when due which commences in January 2024 in accordance with the terms of the July 2023 Note, in which case the conversion price shall be the lower of (i) \$4.50 or (ii) 85% of the lowest VWAP of the Company’s common stock on any trading day during the five (5) trading days prior to the respective conversion date, subject to a floor of \$1.50 per share. The warrants are comprised of (i) a warrant to purchase 41,665 shares of the Company’s common stock at an exercise price of \$4.50 and exercisable until July 6, 2028 and (ii) a warrant to purchase 35,165 shares of the Company’s common stock at an exercise price of \$3.20 and exercisable until July 6, 2028 (which warrant shall be cancelled and extinguished upon the payment of the July 2023 Notes). The conversion price of the July 2023 Note and the exercise price of the warrants issued thereunder contain certain price protection anti-dilution adjustments if an event of default occurs under the July 2023 Notes.

October 2023 Convertible Note Financing

In October 2023, the Company entered into securities purchase agreements with certain lenders (the “October 2023 Lenders”) and closed on the issuance of 13.0% senior secured convertible promissory notes in the aggregate principal amount of \$700,000 (the “October 2023 Note”), as well as the issuance of 70,000 shares of common stock as a commitment fee and warrants for the purchase of up to 105,000 shares of the Company’s common stock. The Company and its subsidiaries have also entered into security agreements, creating a security interest in certain property of the Company and its subsidiaries to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the October 2023 Note. The October 2023 Lenders acquired the October 2023 Note for \$665,000 after an original issue discount of \$35,000. The October 2023 Note matures on October 9, 2024 and accrues interest at a rate of 13.0% per annum. The October 2023 Note contains certain negative covenants. If the October 2023 Note is accelerated following the occurrence of an event of default as described in such note, the Company is required to pay 120% of the principal and interest outstanding under the October 2023 Note. The principal amount and interest under the October 2023 Note is convertible into shares of the Company’s common stock at a conversion price of \$1.50 per share, unless the Company fails to make an amortization payment when due which commences in April 2024 in accordance with the terms of the October 2023 Note, in which case the conversion price shall be the lower of (i) \$1.50 or (ii) 85% of the lowest VWAP of the Company’s common stock on any trading day during the five (5) trading days prior to the respective conversion date. The warrants are comprised of (i) a warrant to purchase 105,000 shares of the Company’s common stock at an exercise price of \$2.50 and exercisable until October 9, 2028 and (ii) a warrant to purchase 87,500 shares of the Company’s common stock at an exercise price of \$1.80 and exercisable until October 9, 2028 and which warrant shall be cancelled and extinguished upon the payment of the October 2023 Note. The conversion price of the October 2023 Note and the exercise price of the warrants issued thereunder contain certain price protection anti-dilution adjustments if an event of default occurs under the October 2023 Note.

We estimate that based on current plans and assumptions, that our available cash will be insufficient to satisfy our cash requirements under our present operating expectations through cash flow provided by operations, and cash available under our ATM and lending facilities and sales of equity. Other than funds received as described above and cash resource generating from our operations, we presently have no other significant alternative source of working capital. We have used these funds to fund our operating expenses, pay our obligations and grow our company. We will need to raise significant additional capital to fund our operations and to provide working capital for our ongoing operations and obligations. Therefore, our future operation is dependent on our ability to secure additional financing. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will be required to cease our operations. To date, we have not considered this alternative, nor do we view it as a likely occurrence.

Foreign Currency Exchange Rate Risk

In November of 2022, we decided to cease all operations in China with the exception of a small administrative office, Avalon Shanghai. We do not expect nor do we plan that there will be further revenue generated from PRC operations in the foreseeable future. Thus, exchange rate fluctuations between the RMB and the US dollar do not have a material effect on us. For the three months ended September 30, 2023 and 2022, we had an unrealized foreign currency translation loss of approximately \$9,000 and \$37,000, respectively, because of changes in the exchange rate. For the nine months ended September 30, 2023 and 2022, we had an unrealized foreign currency translation loss of approximately \$16,000 and \$79,000, respectively, because of changes in the exchange rate.

Inflation

The effect of inflation on our revenue and operating results was not significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, our management, including our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures, which are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

Based on this evaluation, management concluded that our disclosure controls and procedures were not effective as of September 30, 2023 due to the material weakness that was previously reported in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023, that have not yet been remediated. Management's plan to remediate the material weakness is described in detail in such Annual Report on Form 10-K for the year ended December 31, 2022.

Changes in Internal Controls Over Financial Reporting

Management is working towards enhancing internal controls, including the hiring of a controller at Lab Services MSO, who is also expected to assist the Company with its internal control over financial reporting processes. Additionally, management continues its risk assessment to identify risks and objectives. There were no other changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to ordinary routine litigation incidental to our normal business operations. We are not currently a party to, and our property is not subject to, any material legal proceedings.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023 and the additional factors discussed in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the period ended June 30, 2023 filed with the SEC on August 14, 2023, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q may not be the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

In July 2023, we issued a five-year warrant to purchase 13,333 shares of our common stock with an exercise price of \$4.50 as a finder’s fee in connection with our note offerings in May and July 2023.

In July 2023, as settlement of outstanding fees of \$236,280 owed to a consultant, we issued 158,600 shares of our common stock to the consultant for services rendered to us.

In November 2023, we issued a five-year warrant to purchase 8,400 shares of our common stock with an exercise price of \$2.50 as a finder’s fee in connection with our note offering in October 2023.

The offers, sales, and issuances of the securities described above were deemed to be exempt from registration under the Securities Act of 1933 in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended, or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited or sophisticated person and had adequate access, through employment, business or other relationships, to information about us.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q are listed in the exhibit index included herewith and are incorporated by reference herein.

EXHIBIT INDEX

Exhibit

No.	Description
10.1	Securities Purchase Agreement, dated October 9, 2023, between Avalon Globocare Corp. and Mast Hill Fund, L.P. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.2	Security Agreement, dated October 9, 2023, among Avalon Globocare Corp., Avalon Healthcare System Inc., Avalon Laboratory Services, Inc., Avalon RT 9 Properties, LLC, Avactis Biosciences, Inc., Laboratory Services MSO, LLC, Genexosome Technologies Inc., International Exosome Association LLC and Mast Hill Fund, L.P. (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.3	Senior Secured Promissory Note, dated October 9, 2023, between Avalon Globocare Corp. and Mast Hill Fund, L.P. (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.4	First Warrant, dated October 9, 2023, between Avalon Globocare Corp. and Mast Hill Fund, L.P. (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.5	Second Warrant, dated October 9, 2023, between Avalon Globocare Corp. and Mast Hill Fund, L.P. (incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.6	Securities Purchase Agreement, dated October 9, 2023, between Avalon Globocare Corp. and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.7	Security Agreement, dated October 9, 2023, among Avalon Globocare Corp., Avalon Healthcare System Inc., Avalon Laboratory Services, Inc., Avalon RT 9 Properties, LLC, Avactis Biosciences, Inc., Laboratory Services MSO, LLC, Genexosome Technologies Inc., International Exosome Association LLC and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.8	Senior Secured Promissory Note, dated October 9, 2023, between Avalon Globocare Corp. and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.9	First Warrant, dated October 9, 2023, between Avalon Globocare Corp. and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.10	Second Warrant, dated October 9, 2023, between Avalon Globocare Corp. and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.10 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
10.11	Mortgage and Security Agreement, dated October 9, 2023, between Avalon Globocare Corp., Mast Hill Fund, L.P. and Firstfire Global Opportunities Fund, LLC (incorporated by reference to Exhibit 10.11 of the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2023).
*10.12	Avalon Globocare Corp. Amended and Restated 2020 Stock Incentive Plan.
* 31.1	Certification of the Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
* 31.2	Certification of the Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
** 32.1	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
** 32.2	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Document.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

AVALON GLOBOCARE CORP.

Dated: November 14, 2023

By: /s/ David K. Jin
Name: David K. Jin
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2023

By: /s/ Luisa Ingargiola
Name: Luisa Ingargiola
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

AVALON GLOBOCARE CORP.

AMENDED AND RESTATED 2020 STOCK INCENTIVE PLAN

1. Establishment and Purpose

1.1 The purpose of the Avalon GloboCare Corp. Amended and Restated 2020 Stock Incentive Plan (the “**Plan**”) is to provide a means whereby eligible employees, officers, non-employee directors and other individual service providers develop a sense of proprietorship and personal involvement in the development and financial success of the Company (as defined herein) and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its stockholders. The Company, by means of the Plan, seeks to retain the services of such eligible persons and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Subsidiaries.

1.2 The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Incentive Bonus Awards, Other Cash-Based Awards and Other Stock-Based Awards. This Plan shall become effective upon the date set forth in Section 17.1 hereof.

2. Definitions

Wherever the following capitalized terms are used in the Plan, they shall have the meanings specified below:

2.1 “**Affiliate**” means, with respect to a Person, a Person that directly or indirectly Controls, or is Controlled by, or is under common Control with, such Person.

2.2 “**Applicable Law**” means the requirements relating to the administration of equity-based awards or equity compensation plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction that applies to Awards.

2.3 “**Award**” means an award of a Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Incentive Bonus Award, Other Cash-Based Award and/or Other Stock-Based Award granted under the Plan.

2.4 “**Award Agreement**” means either (i) a written or electronic agreement entered into between the Company and a Participant setting forth the terms and conditions of an Award, including any amendment or modification thereof, or (ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, internet or other non-paper Award Agreements, and the use of electronic, internet or other non-paper means for the acceptance thereof and actions thereunder by a Participant. Each Award Agreement shall be subject to the terms and conditions of the Plan and need not be identical.

2.5 “**Board**” means the Board of Directors of the Company.

2.6 “**Cause**” means a Participant’s (i) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company or its Affiliates disgrace or disrepute, or materially and adversely affects the Company’s or its Affiliates’ operations or financial performance, (ii) gross negligence or willful misconduct with respect to the Company or any of its Affiliates, including, without limitation fraud, embezzlement, theft or proven dishonesty in the course of Awardee’s employment or other service; (iii) use of controlled drugs other than in accordance with a physician’s prescription; (iv) refusal to perform any lawful, material obligation or fulfill any duty (other than any duty or obligation of the type described in clause (vi) below) to the Company or its Affiliates (other than due to a disability), which refusal, if curable, is not cured within fifteen (15) days after delivery of written notice thereof; (v) material breach of any agreement with or duty owed to the Company or any of its Affiliates, which breach, if curable, is not cured within fifteen (15) days after the delivery of written notice thereof; (vi) any breach of any obligation or duty to the Company or any of its Affiliates (whether arising by statute, common law or agreement) relating to confidentiality, noncompetition, nonsolicitation or proprietary rights; or (vii) any material breach of any policy of the Company or its Affiliates or any action that the Board, in its sole discretion, determines is reasonably likely to cause the Company or its Affiliates disgrace or disrepute. Notwithstanding the foregoing, if a Participant and the Company (or any of its Affiliates) have entered into an employment agreement, consulting agreement or other similar agreement that specifically defines “cause,” then with respect to such Participant, “Cause” shall have the meaning defined in that employment agreement, consulting agreement or other agreement.

2.7 “**Change in Control**” shall be deemed to have occurred if any one of the following events shall occur:

(i) Any Person becomes the beneficial owner (as defined in Rule 13(d)-3 under the Exchange Act) of shares of Common Stock representing more than 50% of the total number of votes that may be cast for the election of directors of the Company; or

(ii) The consummation of any (a) merger or other business combination of the Company, (b) sale of all or substantially all of the Company’s assets or (c) combination of the foregoing transactions (a “**Transaction**”), other than a Transaction involving only the Company and one or more of its subsidiaries, or a Transaction immediately following which the shareholders of the Company immediately prior to the Transaction continue to have a majority of the voting power in the resulting entity or a parent entity; or

(iii) Within any twelve (12)-month period beginning on or after the Effective Date, the persons who were directors of the Company immediately before the beginning of such period (the “**Incumbent Directors**”) shall cease (for any reason other than death) to constitute at least a majority of the Board (or the board of directors of any successor to the Company); provided that any director who was not a director as of the date hereof shall be deemed to be an Incumbent Director if such director was elected to the Board by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually or by prior operation of the foregoing unless such election, recommendation or approval was the result of an actual or threatened election contest of the type contemplated by Rule 14a-11 promulgated under the Exchange Act or any successor provision; or

(iv) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, (1) no event or condition shall constitute a Change in Control to the extent that, if it were, a penalty tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Change in Control to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such penalty tax and (2) no Change in Control shall be deemed to have occurred, and no rights arising upon a Change in Control as provided in the Plan or any Award Agreement shall exist, to the extent that the Board so determines by resolution adopted and not rescinded prior to the Change in Control; *provided, however*, that no such determination by the Board shall be effective if it would cause a Participant to be subject to a penalty tax under Section 409A of the Code.

2.8 “**Code**” means the Internal Revenue Code of 1986, as amended. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.

2.9 “**Committee**” means the committee of the Board delegated with the authority to administer the Plan, or the full Board, as provided in Section 3 of the Plan. With respect to any decision relating to a Reporting Person, the Committee shall consist solely of two or more directors who are disinterested within the meaning of Rule 16b-3 promulgated under the Exchange Act, as amended from time to time, or any successor provision. The fact that a Committee member shall fail to qualify under any of these requirements shall not invalidate an Award if the Award is otherwise validly made under the Plan. The Board may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without cause, and fill vacancies on the Committee however caused.

2.10 “**Common Stock**” means the Company’s Common Stock, par value \$0.0001 per share.

2.11 “**Company**” means Avalon GloboCare Corp., a Delaware corporation, and any successor thereto as provided in Section 15.8.

2.12 “**Continuous Service**” means that the Participant’s service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an employee, director or consultant or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, will not terminate a Participant’s Continuous Service; provided, however, that if the entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Committee in its sole discretion, such Participant’s Continuous Service will be considered to have terminated on the date such entity ceases to qualify as an Affiliate. For example, a change in status from an employee of the Company to a consultant of an Affiliate or to a director will not constitute an interruption of Continuous Service. To the extent permitted by Applicable Law, the Committee or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Company or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company’s (or an Affiliate’s) leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by Applicable Law or permitted by the Committee. Unless the Committee provides otherwise, in its sole discretion, or as otherwise required by Applicable Law, vesting of Awards shall be tolled during any unpaid leave of absence by a Participant.

2.13 “**Control**” means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, or the power to appoint directors of the Company, whether through the ownership of voting securities, by contract or otherwise (the terms “**Controlled by**” and “**under common Control with**” shall have correlative meanings).

2.14 “**Date of Grant**” means the date on which an Award under the Plan is granted by the Committee, or such later date as the Committee may specify to be the effective date of an Award.

2.15 “**Disability**” means a Participant being considered “disabled” within the meaning of Section 409A of the Code and Treasury Regulation 1.409A-3(i)(4), as well as any successor regulation or interpretation.

2.16 “**Effective Date**” means the date set forth in Section 17.1 hereof.

2.17 “**Eligible Person**” means any person who is an employee, officer, director, consultant, advisor or other individual service provider of the Company or any Subsidiary.

2.18 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

2.19 “**Fair Market Value**” of a share of Common Stock shall be, as applied to a specific date (i) the closing price of a share of Common Stock as of such date on the principal established stock exchange or national market system on which the Common Stock is then traded (or, if there is no trading in the Common Stock as of such date, the closing price of a share of Common Stock on the most recent date preceding such date on which trades of the Common Stock were recorded), or (ii) if the shares of Common Stock are not then traded on an established stock exchange or national market system but are then traded in an over-the-counter market, the average of the closing bid and asked prices for the shares of Common Stock in such over-the-counter market as of such date (or, if there are no closing bid and asked prices for the shares of Common Stock as of such date, the average of the closing bid and the asked prices for the shares of Common Stock on the most recent date preceding such date on which such closing bid and asked prices are available on such over-the-counter market), or (iii) if the shares of Common Stock are not then listed on a national securities exchange or national market system or traded in an over-the-counter market, the price of a share of Common Stock as determined by the Committee in its discretion in a manner consistent with Section 409A of the Code and Treasury Regulation 1.409A-1(b)(5)(iv), as well as any successor regulation or interpretation.

2.20 “**Incentive Bonus Award**” means an Award granted under Section 12 of the Plan.

2.21 “**Incentive Stock Option**” means a Stock Option granted under Section 6 hereof that is intended to meet the requirements of Section 422 of the Code and the regulations promulgated thereunder.

2.22 “**Nonqualified Stock Option**” means a Stock Option granted under Section 6 hereof that is not an Incentive Stock Option.

2.23 “**Other Cash-Based Award**” means a contractual right granted to an Eligible Person under Section 13 hereof entitling such Eligible Person to receive a cash payment at such times, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.24 “**Other Stock-Based Award**” means a contractual right granted to an Eligible Person under Section 13 representing a notional unit interest equal in value to a share of Common Stock to be paid and distributed at such times, and subject to such conditions as are set forth in the Plan and the applicable Award Agreement.

2.25 “**Outside Director**” means a director of the Board who is not an employee of the Company or a Subsidiary.

2.26 “**Participant**” means any Eligible Person who holds an outstanding Award under the Plan.

2.27 “**Person**” shall mean, unless otherwise provided, any individual, partnership, firm, trust, corporation, limited liability company or other similar entity. When two or more Persons act as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Common Stock, such partnership, limited partnership, syndicate or group shall be deemed a “Person”.

2.28 “**Performance Goals**” shall mean performance goals established by the Committee as contingencies for the grant, exercise, vesting, distribution, payment and/or settlement, as applicable, of Awards.

2.29 “**Performance Shares**” means a contractual right granted to an Eligible Person under Section 10 hereof representing a notional unit interest equal in value to a share of Common Stock to be paid and distributed at such times, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.30 “**Performance Unit**” means a contractual right granted to an Eligible Person under Section 11 hereof representing a notional dollar interest as determined by the Committee to be paid and distributed at such times, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.31 “**Plan**” means this Avalon GloboCare Corp. Amended and Restated 2020 Omnibus Equity Incentive Plan, as it may be amended from time to time.

2.32 “**Reporting Person**” means an officer, director or greater than ten (10) percent stockholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

2.33 “**Restricted Stock Award**” means a grant of shares of Common Stock to an Eligible Person under Section 8 hereof that are issued subject to such vesting and transfer restrictions and such other conditions as are set forth in the Plan and the applicable Award Agreement.

2.34 “**Restricted Stock Unit Award**” means a contractual right granted to an Eligible Person under Section 9 hereof representing notional unit interests equal in value to a share of Common Stock to be paid and distributed at such times, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.35 “**Securities Act**” means the Securities Act of 1933, as amended.

2.36 “**Stock Appreciation Right**” or “**SAR**” means a contractual right granted to an Eligible Person under Section 7 hereof entitling such Eligible Person to receive a payment, upon the exercise of such right, in such amount and at such time, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.37 “**Stock Option**” means a contractual right granted to an Eligible Person under Section 6 hereof to purchase shares of Common Stock at such time and price, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

2.38 “**Subsidiary**” means an entity (whether or not a corporation) that is wholly or majority owned or controlled, directly or indirectly, by the Company; provided, however, that with respect to Incentive Stock Options, the term “Subsidiary” shall include only an entity that qualifies under section 424(f) of the Code as a “subsidiary corporation” with respect to the Company.

3. Administration

3.1 Committee Members. The Plan shall be administered by the Committee; provided that the entire Board may act in lieu of the Committee on any matter, subject to Section 16b-3 Award requirements referred to in Section 2.9 of the Plan. If and to the extent permitted by Applicable Law, the Committee may authorize one or more Reporting Persons (or other officers) to make Awards to Eligible Persons who are not Reporting Persons (or other officers whom the Committee has specifically authorized to make Awards). Subject to Applicable Law and the restrictions set forth in the Plan, the Committee may delegate administrative functions to individuals who are Reporting Persons, officers, or employees of the Company or its Subsidiaries.

3.2 Committee Authority. The Committee shall have such powers and authority as may be necessary or appropriate for the Committee to carry out its functions as described in the Plan. Subject to the express limitations of the Plan, the Committee shall have authority in its discretion to determine the Eligible Persons to whom, and the time or times at which, Awards may be granted, the number of shares, units or other rights subject to each Award, the exercise, base or purchase price of an Award (if any), the time or times at which an Award will become vested, exercisable or payable, the performance criteria, performance goals and other conditions of an Award, the duration of the Award, and all other terms of the Award. Subject to the terms of the Plan, the Committee shall have authority to amend the terms of an Award in any manner that is not inconsistent with the Plan (including without limitation to determine, add, cancel, waive, amend or otherwise alter any restrictions, terms or conditions of any Award, or extend the post-termination exercisability period of any Stock Option and/or Stock Appreciation Right); provided that neither the Board nor the Committee may, without shareholder approval, reduce or reprice the exercise price of any Stock Option and/or Stock Appreciation Right that exceeds the Fair Market Value of a share of Common Stock on the date of such repricing; and provided further that no such action shall adversely affect the rights of a Participant with respect to an outstanding Award without the Participant’s consent. The Committee shall also have discretionary authority to interpret the Plan, to make all factual determinations under the Plan, and to make all other determinations necessary or advisable for Plan administration, including, without limitation, to correct any defect, to supply any omission or to reconcile any inconsistency in the Plan or any Award Agreement. The Committee may prescribe, amend, and rescind rules and regulations relating to the Plan. The Committee’s determinations under the Plan need not be uniform and may be made by the Committee selectively among Participants and Eligible Persons, whether or not such persons are similarly situated. The Committee shall, in its discretion, consider such factors as it deems relevant in making its interpretations, determinations and actions under the Plan including, without limitation, the recommendations or advice of any officer or employee of the Company or such attorneys, consultants, accountants or other advisors as it may select. All interpretations, determinations, and actions by the Committee shall be final, conclusive, and binding upon all parties.

3.3 No Liability; Indemnification. Neither the Board nor any Committee member, nor any Person acting at the direction of the Board or the Committee, shall be liable for any act, omission, interpretation, construction or determination made in good faith with respect to the Plan or any Award or Award Agreement. The Company and its Subsidiaries shall pay or reimburse any member of the Committee, as well as any other Person who takes action on behalf of the Plan, for all reasonable expenses incurred with respect to the Plan, and to the full extent allowable under Applicable Law shall indemnify each and every one of them for any claims, liabilities, and costs (including reasonable attorney’s fees) arising out of their good faith performance of duties on behalf of the Company with respect to the Plan. The Company and its Subsidiaries may, but shall not be required to, obtain liability insurance for this purpose.

4. Shares Subject to the Plan

4.1 Plan Share Limitation.

(a) Subject to adjustment pursuant to Section 4.2 and any other applicable provisions hereof, the maximum aggregate number of shares of Common Stock which may be issued under all Awards granted to Participants under the Plan shall be 2,000,000 shares; all of which may, but need not, be issued in respect of Incentive Stock Options.

(b) The number of shares of Common Stock available for issuance under the Plan shall automatically increase on January 1st of each year commencing with January 1, 2024 and on each January 1 thereafter until the Expiration Date (as defined in Section 17.2 of the Plan), in an amount equal to one percent (1%) of the total number of shares of Common Stock outstanding on December 31st of the preceding calendar year. Notwithstanding the foregoing, the Board may act prior to the first day of any calendar year, to provide that there shall be no increase in the share reserve for such calendar year or that the increase in the share reserve for such calendar year shall be a lesser number of shares of Common Stock than would otherwise occur pursuant to the preceding sentence. For avoidance of doubt, none of the additional shares of Common Stock available for issuance pursuant to this Section 4.1(b) shall be issued in respect of Incentive Stock Options.

(c) Shares of Common Stock issued under the Plan may be either authorized but unissued shares or shares held in the Company's treasury. To the extent that any Award payable in shares of Common Stock is forfeited, canceled, returned to the Company for failure to satisfy vesting requirements or upon the occurrence of other forfeiture events, or otherwise terminates without payment being made thereunder, the shares of Common Stock covered thereby will no longer be counted against the foregoing maximum share limitations and may again be made subject to Awards under the Plan pursuant to such limitations. Awards settled in cash shall not count against the foregoing maximum share limitation. Shares of Common Stock that otherwise would have been issued upon the exercise of a Stock Option or SAR or in payment with respect to any other form of Award, but are surrendered in payment or partial payment of the exercise price thereof and/or taxes withheld with respect to the exercise thereof or the making of such payment, will no longer be counted against the foregoing maximum share limitations and may again be made subject to Awards under the Plan pursuant to such limitations.

4.2 Adjustments. If there shall occur any change with respect to the outstanding shares of Common Stock by reason of any recapitalization, reclassification, stock dividend, extraordinary dividend, stock split, reverse stock split, or other distribution with respect to the shares of Common Stock, or any merger, reorganization, consolidation, combination, spin-off or other similar corporate change, or any other change affecting the Common Stock, the Committee shall, in the manner and to the extent that it deems appropriate and equitable to the Participants and consistent with the terms of the Plan, cause an adjustment to be made in (i) the maximum numbers and kind of shares provided in Section 4.1 hereof, (ii) the numbers and kind of shares of Common Stock, units, or other rights subject to then outstanding Awards, (iii) the price for each share or unit or other right subject to then outstanding Awards, (iv) the performance measures or goals relating to the vesting of an Award, and (v) any other terms of an Award that are affected by the event to prevent dilution or enlargement of a Participant's rights under an Award. Notwithstanding the foregoing, in the case of Incentive Stock Options, any such adjustments shall, to the extent practicable, be made in a manner consistent with the requirements of Section 424(a) of the Code.

5. Participation and Awards

5.1 Designation of Participants. All Eligible Persons are eligible to be designated by the Committee to receive Awards and become Participants under the Plan. The Committee has the authority, in its discretion, to determine and designate from time to time those Eligible Persons who are to be granted Awards, the types of Awards to be granted and the number of shares of Common Stock or units subject to Awards granted under the Plan. In selecting Eligible Persons to be Participants and in determining the type and amount of Awards to be granted under the Plan, the Committee shall consider any and all factors that it deems relevant or appropriate.

5.2 Determination of Awards. The Committee shall determine the terms and conditions of all Awards granted to Participants in accordance with its authority under Section 3.2 hereof. An Award may consist of one type of right or benefit hereunder or of two or more such rights or benefits granted in tandem or in the alternative. To the extent deemed appropriate by the Committee, an Award shall be evidenced by an Award Agreement as described in Section 15.1 hereof.

6. Stock Options

6.1 Grant of Stock Option. A Stock Option may be granted to any Eligible Person selected by the Committee. Subject to the provisions of Section 6.6 hereof and Section 422 of the Code, each Stock Option shall be designated, in the sole discretion of the Committee, as an Incentive Stock Option or as a Nonqualified Stock Option.

6.2 Exercise Price. The exercise price per share of a Stock Option shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant, subject to adjustments as provided for under Section 4.2.

6.3 Vesting of Stock Options. The Committee shall in its sole discretion prescribe the time or times at which, or the conditions upon which, a Stock Option or portion thereof shall become vested and/or exercisable. The requirements for vesting and exercisability of a Stock Option may be based on the Continuous Service of the Participant for a specified time period (or periods) and/or on the attainment of a specified performance goal (or goals) established by the Committee in its discretion. The Committee may, in its sole discretion, accelerate the vesting or exercisability of any Stock Option at any time. The Committee, in its sole discretion, may allow a Participant to exercise unvested Nonqualified Stock Options, in which case the shares of Common Stock then issued shall be Restricted Stock having analogous vesting restrictions to the unvested Nonqualified Stock Options.

6.4 Term of Stock Options. The Committee shall in its discretion prescribe in an Award Agreement the period during which a vested Stock Option may be exercised, provided that the maximum term of a Stock Option shall be ten (10) years from the Date of Grant. A Stock Option may be earlier terminated as specified by the Committee and set forth in an Award Agreement upon or following the termination of a Participant's Continuous Service for any reason, including by reason of voluntary resignation, death, Disability, termination for Cause or any other reason. Except as otherwise provided in this Section 6 or in an Award Agreement as such agreement may be amended from time to time upon authorization of the Committee, no Stock Option may be exercised at any time during the term thereof unless the Participant is then in Continuous Service. Notwithstanding the foregoing, unless an Award Agreement provides otherwise:

(a) If a Participant's Continuous Service terminates by reason of his or her death, any Stock Option held by such Participant may, to the extent then exercisable, be exercised by such Participant's estate or any Person who acquires the right to exercise such Stock Option by bequest or inheritance at any time in accordance with its terms for up to one (1) year after the date of such Participant's death (but in no event after the earlier of the expiration of the term of such Stock Option or such time as the Stock Option is otherwise canceled or terminated in accordance with its terms). Upon expiration of such one-year period, no portion of the Stock Option held by such Participant shall be exercisable and the Stock Option shall be deemed to be canceled, forfeited and of no further force or effect.

(b) If a Participant's Continuous Service terminates by reason of his or her Disability, any Stock Option held by such Participant may, to the extent then exercisable, be exercised by the Participant or his or her personal representative at any time in accordance with its terms for up to one (1) year after the date of such Participant's termination of Continuous Service (but in no event after the earlier of the expiration of the term of such Stock Option or such time as the Stock Option is otherwise canceled or terminated in accordance with its terms). Upon expiration of such one-year period, no portion of the Stock Option held by such Participant shall be exercisable and the Stock Option shall be deemed to be canceled, forfeited and of no further force or effect.

(c) If a Participant's Continuous Service terminates for any reason other than death, Disability or Cause, any Stock Option held by such Participant may, to the extent then exercisable, be exercised by the Participant up until ninety (90) days following such termination of Continuous Service (but in no event after the earlier of the expiration of the term of such Stock Option or such time as the Stock Option is otherwise canceled or terminated in accordance with its terms). Upon expiration of such 90-day period, no portion of the Stock Option held by such Participant shall be exercisable and the Stock Option shall be deemed to be canceled, forfeited and of no further force or effect.

(d) To the extent that a Stock Option of a Participant whose Continuous Service terminates is not exercisable, such Stock Option shall be deemed forfeited and canceled on the ninetieth (90th) day after such termination of Continuous Service or at such earlier time as the Committee may determine.

6.5 Stock Option Exercise. Subject to such terms and conditions as shall be specified in an Award Agreement, a Stock Option may be exercised in whole or in part at any time during the term thereof by notice in the form required by the Company, and payment of the aggregate exercise price by certified or bank check, or such other means as the Committee may accept. As set forth in an Award Agreement or otherwise determined by the Committee, in its sole discretion, at or after grant, payment in full or in part of the exercise price of an Option may be made: (i) in the form of shares of Common Stock that have been held by the Participant for such period as the Committee may deem appropriate for accounting purposes or otherwise, valued at the Fair Market Value of such shares on the date of exercise; (ii) by surrendering to the Company shares of Common Stock otherwise receivable on exercise of the Option; (iii) by a cashless exercise program implemented by the Committee in connection with the Plan; (iv) subject to the approval of the Committee, by a full recourse, interest bearing promissory note having such terms as the Committee may, in its sole discretion, permit and/or (v) by such other method as may be approved by the Committee and set forth in an Award Agreement. Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment of the exercise price and satisfaction of any applicable tax withholding pursuant to Section 16.5, the Company shall deliver to the Participant evidence of book entry shares of Common Stock, or upon the Participant's request, Common Stock certificates in an appropriate amount based upon the number of shares of Common Stock purchased under the Option. Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars or shares of Common Stock, as applicable.

6.6 Additional Rules for Incentive Stock Options.

(a) Eligibility. An Incentive Stock Option may only be granted to an Eligible Person who is considered an employee under Treasury Regulation §1.421-1(h) of the Company or any Subsidiary.

(b) Annual Limits. No Incentive Stock Option shall be granted to an Eligible Person as a result of which the aggregate Fair Market Value (determined as of the Date of Grant) of the stock with respect to which Incentive Stock Options are exercisable for the first time in any calendar year under the Plan and any other stock option plans of the Company or any Subsidiary would exceed \$100,000, determined in accordance with Section 422(d) of the Code. This limitation shall be applied by taking Incentive Stock Options into account in the order in which granted.

(c) Ten Percent Stockholders. If a Stock Option granted under the Plan is intended to be an Incentive Stock Option, and if the Participant, at the time of grant, owns stock possessing ten percent (10%) or more of the total combined voting power of all classes of Common Stock of the Company or any Subsidiary, then (i) the Stock Option exercise price per share shall in no event be less than 110% of the Fair Market Value of the Common Stock on the date of such grant and (ii) such Stock Option shall not be exercisable after the expiration of five (5) years following the date such Stock Option is granted.

(d) Termination of Employment. An Award of an Incentive Stock Option shall provide that such Stock Option may be exercised not later than three (3) months following termination of employment of the Participant with the Company and all Subsidiaries, or not later than one (1) year following death or a permanent and total disability within the meaning of Section 22(e)(3) of the Code, as and to the extent determined by the Committee to be necessary to comply with the requirements of Section 422 of the Code.

(e) Disqualifying Dispositions. If shares of Common Stock acquired by exercise of an Incentive Stock Option are disposed of within two (2) years following the Date of Grant or one (1) year following the transfer of such shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Company may reasonably require.

7. Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights. A Stock Appreciation Right may be granted to any Eligible Person selected by the Committee. Stock Appreciation Rights may be granted on a basis that allows for the exercise of the right by the Participant or that provides for the automatic payment of the right upon a specified date or event.

7.2 Base Price. The base price of a Stock Appreciation Right shall be determined by the Committee in its sole discretion; provided, however, that the base price for any grant of a Stock Appreciation Right shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant, subject to adjustments as provided for under Section 4.2.

7.3 Vesting Stock Appreciation Rights. The Committee shall in its discretion prescribe the time or times at which, or the conditions upon which, a Stock Appreciation Right or portion thereof shall become vested and/or exercisable. The requirements for vesting and exercisability of a Stock Appreciation Right may be based on the Continuous Service of a Participant for a specified time period (or periods) or on the attainment of a specified performance goal (or goals) established by the Committee in its discretion. The Committee may, in its sole discretion, accelerate the vesting or exercisability of any Stock Appreciation Right at any time.

7.4 Term of Stock Appreciation Rights. The Committee shall in its discretion prescribe in an Award Agreement the period during which a vested Stock Appreciation Right may be exercised, provided that the maximum term of a Stock Appreciation Right shall be ten (10) years from the Date of Grant. A Stock Appreciation Right may be earlier terminated as specified by the Committee and set forth in an Award Agreement upon or following the termination of a Participant's Continuous Service for any reason, including by reason of voluntary resignation, death, Disability, termination for Cause or any other reason. Except as otherwise provided in this Section 7 or in an Award Agreement, as such agreement may be amended from time to time upon authorization of the Committee, no Stock Appreciation Right may be exercised at any time during the term thereof unless the Participant is then in Continuous Service.

7.5 Payment of Stock Appreciation Rights. Subject to such terms and conditions as shall be specified in an Award Agreement, a vested Stock Appreciation Right may be exercised in whole or in part at any time during the term thereof by notice in the form required by the Company and payment of any exercise price. Upon the exercise of a Stock Appreciation Right and payment of any applicable exercise price, a Participant shall be entitled to receive an amount determined by multiplying: (i) the excess of the Fair Market Value of a share of Common Stock on the date of exercise of the Stock Appreciation Right over the base price of such Stock Appreciation Right, by (ii) the number of shares as to which such Stock Appreciation Right is exercised. Payment of the amount determined under the immediately preceding sentence may be made, as approved by the Committee and set forth in the Award Agreement, in shares of Common Stock valued at their Fair Market Value on the date of exercise, in cash, or in a combination of shares of Common Stock and cash, subject to applicable tax withholding requirements set forth in Section 16.5. If Stock Appreciation Rights are settled in shares of Common Stock, then as soon as practicable following the date of settlement the Company shall deliver to the Participant evidence of book entry shares of Common Stock, or upon the Participant's request, Common Stock certificates in an appropriate amount.

8. Restricted Stock Awards

8.1 Grant of Restricted Stock Awards. A Restricted Stock Award may be granted to any Eligible Person selected by the Committee. The Committee may require the payment by the Participant of a specified purchase price in connection with any Restricted Stock Award. The Committee may provide in an Award Agreement for the payment of dividends and distributions to the Participant at such times as paid to stockholders generally or at the times of vesting or other payment of the Restricted Stock Award. If any dividends or distributions are paid in stock while a Restricted Stock Award is subject to restrictions under Section 8.3 of the Plan, the dividends or other distributions shares shall be subject to the same restrictions on transferability as the shares of Common Stock to which they were paid unless otherwise set forth in the Award Agreement. The Committee may also subject the grant of any Restricted Stock Award to the execution of a voting agreement with the Company or with any Affiliate of the Company.

8.2 Vesting Requirements. The restrictions imposed on shares of Common Stock granted under a Restricted Stock Award shall lapse in accordance with the vesting requirements specified by the Committee in the Award Agreement. Upon vesting of a Restricted Stock Award, such Award shall be subject to the tax withholding requirement set forth in Section 16.5. The requirements for vesting of a Restricted Stock Award may be based on the Continuous Service of the Participant for a specified time period (or periods) or on the attainment of a specified performance goal (or goals) established by the Committee in its discretion. The Committee may, in its sole discretion, accelerate the vesting of a Restricted Stock Award at any time. If the vesting requirements of a Restricted Stock Award shall not be satisfied, the Award shall be forfeited and the shares of Common Stock subject to the Award shall be returned to the Company. In the event that the Participant paid any purchase price with respect to such forfeited shares, unless otherwise provided by the Committee in an Award Agreement, the Company will refund to the Participant the lesser of (i) such purchase price and (ii) the Fair Market Value of such shares on the date of forfeiture.

8.3 Restrictions. Shares granted under any Restricted Stock Award may not be transferred, assigned or subject to any encumbrance, pledge, or charge until all applicable restrictions are removed or have expired, unless otherwise allowed by the Committee. The Committee may require in an Award Agreement that certificates representing the shares granted under a Restricted Stock Award bear a legend making appropriate reference to the restrictions imposed, and that certificates representing the shares granted or sold under a Restricted Stock Award will remain in the physical custody of an escrow holder until all restrictions are removed or have expired.

8.4 Rights as Stockholder. Subject to the foregoing provisions of this Section 8 and the applicable Award Agreement, the Participant to whom a Restricted Stock Award is made shall have all rights of a stockholder with respect to the shares granted to the Participant under the Restricted Stock Award, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto, unless the Committee determines otherwise at the time the Restricted Stock Award is granted.

8.5 Section 83(b) Election. If a Participant makes an election pursuant to Section 83(b) of the Code with respect to a Restricted Stock Award, the Participant shall file, within thirty (30) days following the Date of Grant, a copy of such election with the Company (directed to the Secretary thereof) and with the Internal Revenue Service, in accordance with the regulations under Section 83 of the Code. The Committee may provide in an Award Agreement that the Restricted Stock Award is conditioned upon the Participant's making or refraining from making an election with respect to the Award under Section 83(b) of the Code.

9. Restricted Stock Unit Awards

9.1 Grant of Restricted Stock Unit Awards. A Restricted Stock Unit Award may be granted to any Eligible Person selected by the Committee. The value of each stock unit under a Restricted Stock Unit Award is equal to the Fair Market Value of the Common Stock on the applicable date or time period of determination, as specified by the Committee. A Restricted Stock Unit Award shall be subject to such restrictions and conditions as the Committee shall determine. A Restricted Stock Unit Award may be granted together with a dividend equivalent right with respect to the shares of Common Stock subject to the Award, which may be accumulated and may be deemed reinvested in additional stock units, as determined by the Committee in its sole discretion. If any dividend equivalents are paid while a Restricted Stock Unit Award is subject to restrictions under Section 9 of the Plan, the Committee may, in its sole discretion, provide in the Award Agreement for such dividend equivalents to immediately be paid to the Participant holding such Restricted Stock Unit Award or pay such dividend equivalents subject to the same restrictions on transferability as the Restricted Stock Units to which they relate.

9.2 Vesting of Restricted Stock Unit Awards. On the Date of Grant, the Committee shall, in its discretion, determine any vesting requirements with respect to a Restricted Stock Unit Award, which shall be set forth in the Award Agreement. The requirements for vesting of a Restricted Stock Unit Award may be based on the Continuous Service of the Participant for a specified time period (or periods) or on the attainment of a specified performance goal (or goals) established by the Committee in its discretion. The Committee may, in its sole discretion, accelerate the vesting of a Restricted Stock Unit Award at any time. A Restricted Stock Unit Award may also be granted on a fully vested basis, with a deferred payment date as may be determined by the Committee or elected by the Participant in accordance with rules established by the Committee and in compliance with Applicable Law including Section 409A of the Code.

9.3 Payment of Restricted Stock Unit Awards. A Restricted Stock Unit Award shall become payable to a Participant at the time or times determined by the Committee and set forth in the Award Agreement, which may be upon or following the vesting of the Award. Payment of a Restricted Stock Unit Award may be made, at the discretion of the Committee, in cash or in shares of Common Stock, or in a combination thereof as described in the Award Agreement, subject to applicable tax withholding requirements set forth in Section 16.5. Any cash payment of a Restricted Stock Unit Award shall be made based upon the Fair Market Value of the Common Stock, determined on such date or over such time period as determined by the Committee. Notwithstanding the foregoing, unless specified otherwise in the Award Agreement, any Restricted Stock Unit, whether settled in Common Stock or cash, shall be paid no later than two and one-half (2 ½) months after the later of the calendar year or fiscal year in which the Restricted Stock Units vest. If Restricted Stock Unit Awards are settled in shares of Common Stock, then as soon as practicable following the date of settlement, the Company shall deliver to the Participant evidence of book entry shares of Common Stock, or upon the Participant's request, Common Stock certificates in an appropriate amount.

10. Performance Shares.

10.1 Grant of Performance Shares. Performance Shares may be granted to any Eligible Person other than an Outside Director selected by the Committee. A Performance Share Award shall be subject to such restrictions and condition as the Committee shall specify. A Performance Share Award may be granted with a dividend equivalent right with respect to the shares of Common Stock subject to the Award, which may be accumulated and may be deemed reinvested in additional stock units, as determined by the Committee in its sole discretion.

10.2 Value of Performance Shares. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the Date of Grant. The Committee shall set performance goals in its discretion that, depending on the extent to which they are met over a specified time period, shall determine the number of Performance Shares that shall be paid to a Participant.

10.3 Earning of Performance Shares. After the applicable time period has ended, the number of Performance Shares earned by the Participant over such time period shall be determined as a function of the extent to which the applicable corresponding performance goals have been achieved. This determination shall be made solely by the Committee. The Committee may, in its sole discretion, waive any performance or vesting conditions relating to a Performance Share Award.

10.4 Form and Timing of Payment of Performance Shares. The Committee shall pay at the close of the applicable Performance Period, or as soon as practicable thereafter, any earned Performance Shares in the form of cash or in shares of Common Stock or in a combination thereof, as specified in a Participant's Award Agreement, subject to applicable tax withholding requirements set forth in Section 16.5. Notwithstanding the foregoing, unless specified otherwise in the Award Agreement, all Performance Shares shall be paid no later than two and one-half (2 ½) months following the later of the calendar year or fiscal year in which such Performance Shares vest. Any shares of Common Stock paid to a Participant under this Section 10.4 may be subject to any restrictions deemed appropriate by the Committee. If Performance Shares are settled in shares of Common Stock, then as soon as practicable following the date of settlement the Company shall deliver to the Participant evidence of book entry shares of Common Stock, or upon the Participant's request, Common Stock certificates in an appropriate amount.

11. Performance Units

11.1 Grant of Performance Units. Performance Units may be granted to any Eligible Person other than an Outside Director selected by the Committee. A Performance Unit Award shall be subject to such restrictions and condition as the Committee shall specify in a Participant's Award Agreement.

11.2 Value of Performance Units. Each Performance Unit shall have an initial notional value equal to a dollar amount determined by the Committee, in its sole discretion. The Committee shall set performance goals in its discretion that, depending on the extent to which they are met over a specified time period, will determine the number of Performance Units that shall be settled and paid to the Participant.

11.3 Earning of Performance Units. After the applicable time period has ended, the number of Performance Units earned by the Participant, and the amount payable in cash, in shares or in a combination thereof, over such time period shall be determined as a function of the extent to which the applicable corresponding performance goals have been achieved. This determination shall be made solely by the Committee. The Committee may, in its sole discretion, waive any performance or vesting conditions relating to a Performance Unit Award.

11.4 Form and Timing of Payment of Performance Units. The Committee shall pay at the close of the applicable Performance Period, or as soon as practicable thereafter, any earned Performance Units in the form of cash or in shares of Common Stock or in a combination thereof, as specified in a Participant's Award Agreement, subject to applicable tax withholding requirements set forth in Section 16.5. Notwithstanding the foregoing, unless specified otherwise in the Award Agreement, all Performance Units shall be paid no later than two and one-half (2 ½) months following the later of the calendar year or fiscal year in which such Performance Units vest. Any shares of Common Stock paid to a Participant under this Section 11.4 may be subject to any restrictions deemed appropriate by the Committee. If Performance Units are settled in shares of Common Stock, then as soon as practicable following the date of settlement the Company shall deliver to the Participant evidence of book entry shares of Common Stock, or upon the Participant's request, Common Stock certificates in an appropriate amount.

12. Incentive Bonus Awards

12.1 Incentive Bonus Awards. The Committee, at its discretion, may grant Incentive Bonus Awards to such Participants as it may designate from time to time. The terms of a Participant's Incentive Bonus Award shall be set forth in the Participant's Award Agreement. Each Award Agreement shall specify such general terms and conditions as the Committee shall determine.

12.2 Incentive Bonus Award Performance Criteria. The determination of Incentive Bonus Awards for a given year or years may be based upon the attainment of specified levels of Company or Subsidiary performance as measured by pre-established, objective performance criteria determined at the discretion of the Committee. The Committee shall (i) select those Participants who shall be eligible to receive an Incentive Bonus Award, (ii) determine the performance period, (iii) determine target levels of performance, and (iv) determine the level of Incentive Bonus Award to be paid to each selected Participant upon the achievement of each performance level. The Committee generally shall make the foregoing determinations prior to the commencement of services to which an Incentive Bonus Award relates, to the extent applicable, and while the outcome of the performance goals and targets is uncertain.

12.3 Payment of Incentive Bonus Awards.

(a) Incentive Bonus Awards shall be paid in cash or Common Stock, as set forth in a Participant's Award Agreement. Payments shall be made following a determination by the Committee that the performance targets were attained and shall be made within two and one-half months after the later of the end of the fiscal or calendar year in which the Incentive Award is no longer subject to a substantial risk of forfeiture.

(b) The amount of an Incentive Bonus Award to be paid upon the attainment of each targeted level of performance shall equal a percentage of a Participant's base salary for the fiscal year, a fixed dollar amount, or such other formula, as determined by the Committee.

13. Other Cash-Based Awards and Other Stock-Based Awards

13.1 Other Cash-Based and Stock-Based Awards. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may involve the transfer of actual shares of Common Stock to a Participant, or payment in cash or otherwise of amounts based on the value of shares of Common Stock. In addition, the Committee, at any time and from time to time, may grant Other Cash-Based Awards to a Participant in such amounts and upon such terms as the Committee shall determine, in its sole discretion.

13.2 Value of Cash-Based Awards and Other Stock-Based Awards. Each Other Stock-Based Award shall be expressed in terms of shares of Common Stock or units based on shares of Common Stock, as determined by the Committee, in its sole discretion. Each Other Cash-Based Award shall specify a payment amount or payment range as determined by the Committee, in its sole discretion. If the Committee exercises its discretion to establish performance goals, the value of Other Cash-Based Awards that shall be paid to the Participant will depend on the extent to which such performance goals are met.

13.3 Payment of Cash-Based Awards and Other Stock-Based Awards. Payment, if any, with respect to Other Cash-Based Awards and Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash or shares of Common Stock as the Committee determines.

14. Change in Control

14.1 Effect of a Change in Control.

(a) The Committee may, at the time of the grant of an Award and as set forth in an Award Agreement, provide for the effect of a “Change in Control” on an Award. Such provisions may include any one or more of the following: (i) the acceleration or extension of time periods for purposes of exercising, vesting in, or realizing gain from any Award, (ii) the elimination or modification of performance or other conditions related to the payment or other rights under an Award, (iii) provision for the cash settlement of an Award for an equivalent cash value, as determined by the Committee, or (iv) such other modification or adjustment to an Award as the Committee deems appropriate to maintain and protect the rights and interests of Participants upon or following a Change in Control. To the extent necessary for compliance with Section 409A of the Code, an Award Agreement shall provide that an Award subject to the requirements of Section 409A that would otherwise become payable upon a Change in Control shall only become payable to the extent that the requirements for a “change in control” for purposes of Section 409A have been satisfied.

(b) Notwithstanding anything to the contrary set forth in the Plan, unless otherwise provided by an Award Agreement, upon or in anticipation of any Change in Control, the Committee may, in its sole and absolute discretion and without the need for the consent of any Participant, take one or more of the following actions contingent upon the occurrence of that Change in Control: (i) cause any or all outstanding Stock Options and Stock Appreciation Rights held by Participants affected by the Change in Control to become vested and immediately exercisable, in whole or in part; (ii) cause any or all outstanding Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Incentive Bonus Award and any other Award held by Participants affected by the Change in Control to become non-forfeitable, in whole or in part; (iii) cancel any Stock Option or Stock Appreciation Right in exchange for a substitute option in a manner consistent with the requirements of Treasury Regulation. §1.424-1(a) or §1.409A-1(b)(5)(v)(D), as applicable (notwithstanding the fact that the original Stock Option may never have been intended to satisfy the requirements for treatment as an Incentive Stock Option); (iv) cancel any Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units held by a Participant in exchange for restricted stock or performance shares of or stock or performance units in respect of the capital stock of any successor corporation; (v) redeem any Restricted Stock held by a Participant affected by the Change in Control for cash and/or other substitute consideration with a value equal to the Fair Market Value of an unrestricted share of Common Stock on the date of the Change in Control; (vi) terminate any Award in exchange for an amount of cash and/or property equal to the amount, if any, that would have been attained upon the exercise of such Award or realization of the Participant’s rights as of the date of the occurrence of the Change in Control (the “**Change in Control Consideration**”); provided, however that if the Change in Control Consideration with respect to any Option or Stock Appreciation Right does not exceed the exercise price of such Option or Stock Appreciation Right, the Committee may cancel the Option or Stock Appreciation Right without payment of any consideration therefor; and/or (vii) take any other action necessary or appropriate to carry out the terms of any definitive agreement controlling the terms and conditions of the Change in Control. Any such Change in Control Consideration may be subject to any escrow, indemnification and similar obligations, contingencies and encumbrances applicable in connection with the Change in Control to holders of Common Stock. Without limitation of the foregoing, if as of the date of the occurrence of the Change in Control the Committee determines that no amount would have been attained upon the realization of the Participant’s rights, then such Award may be terminated by the Company without payment. The Committee may cause the Change in Control Consideration to be subject to vesting conditions (whether or not the same as the vesting conditions applicable to the Award prior to the Change in Control) and/or make such other modifications, adjustments or amendments to outstanding Awards or this Plan as the Committee deems necessary or appropriate.

(c) The Committee may require a Participant to (i) represent and warrant as to the unencumbered title to the Participant's Awards, (ii) bear such Participant's pro rata share of any post-closing indemnity obligations, and be subject to the same or similar post-closing purchase price adjustments, escrow terms, offset rights, holdback terms and similar conditions as the other holders of Common Stock, and (iii) execute and deliver such documents and instruments as the Committee may reasonably require for the Participant to be bound by such obligations. The Committee will endeavor to take action under this Section 14 in a manner that does not cause a violation of Section 409A of the Code with respect to an Award.

15. General Provisions

15.1 Award Agreement. To the extent deemed necessary by the Committee, an Award under the Plan shall be evidenced by an Award Agreement in a written or electronic form approved by the Committee setting forth the number of shares of Common Stock or units subject to the Award, the exercise price, base price, or purchase price of the Award, the time or times at which an Award will become vested, exercisable or payable and the term of the Award. The Award Agreement may also set forth the effect on an Award of termination of Continuous Service under certain circumstances. The Award Agreement shall be subject to and incorporate, by reference or otherwise, all of the applicable terms and conditions of the Plan, and may also set forth other terms and conditions applicable to the Award as determined by the Committee consistent with the limitations of the Plan. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code. The grant of an Award under the Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in the Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the Award Agreement.

15.2 Forfeiture Events/Representations. The Committee may specify in an Award Agreement at the time of the Award that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, termination of Continuous Service for Cause, violation of material Company policies, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company. The Committee may also specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be conditioned upon the Participant making a representation regarding compliance with noncompetition, confidentiality or other restrictive covenants that may apply to the Participant and providing that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment on account of a breach of such representation. Notwithstanding the foregoing, the confidentiality restrictions set forth in an Award Agreement shall not, and shall not be interpreted to, impair a Participant from exercising any legally protected whistleblower rights (including under Rule 21 of the Exchange Act). In addition and without limitation of the foregoing, any amounts paid hereunder shall be subject to recoupment in accordance with The Dodd-Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any "clawback" policy adopted by the Company or as is otherwise required by Applicable Law or stock exchange listing condition.

15.3 No Assignment or Transfer; Beneficiaries.

(a) Awards under the Plan shall not be assignable or transferable by the Participant, except by will or by the laws of descent and distribution, and shall not be subject in any manner to assignment, alienation, pledge, encumbrance or charge. Notwithstanding the foregoing, the Committee may provide in an Award Agreement that the Participant shall have the right to designate a beneficiary or beneficiaries who shall be entitled to any rights, payments or other benefits specified under an Award following the Participant's death. During the lifetime of a Participant, an Award shall be exercised only by such Participant or such Participant's guardian or legal representative. In the event of a Participant's death, an Award may, to the extent permitted by the Award Agreement, be exercised by the Participant's beneficiary as designated by the Participant in the manner prescribed by the Committee or, in the absence of an authorized beneficiary designation, by the legatee of such Award under the Participant's will or by the Participant's estate in accordance with the Participant's will or the laws of descent and distribution, in each case in the same manner and to the same extent that such Award was exercisable by the Participant on the date of the Participant's death.

(b) Limited Transferability Rights. Notwithstanding anything else in this Section 15.3 to the contrary, the Committee may in its discretion provide in an Award Agreement that an Award in the form of a Nonqualified Stock Option, share-settled Stock Appreciation Right, Restricted Stock, Performance Share or share-settled Other Stock-Based Award may be transferred, on such terms and conditions as the Committee deems appropriate, either (i) by instrument to the Participant's "Immediate Family" (as defined below), (ii) by instrument to an inter vivos or testamentary trust (or other entity) in which the Award is to be passed to the Participant's designated beneficiaries, or (iii) by gift to charitable institutions. Any transferee of the Participant's rights shall succeed and be subject to all of the terms of the applicable Award Agreement and the Plan. "**Immediate Family**" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

15.4 Rights as Stockholder. A Participant shall have no rights as a holder of shares of Common Stock with respect to any unissued shares of Common Stock covered by an Award until the date the Participant becomes the holder of record of such securities. Except as provided in Section 4.2 hereof, no adjustment or other provision shall be made for dividends or other stockholder rights, except to the extent that the Award Agreement provides for dividend payments or dividend equivalent rights.

15.5 Employment or Continuous Service. Nothing in the Plan, in the grant of any Award or in any Award Agreement shall confer upon any Eligible Person or Participant any right to continue in Continuous Service, or interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment or other service relationship of an Eligible Person or Participant for any reason at any time.

15.6 Fractional Shares. In the case of any fractional share or unit resulting from the grant, vesting, payment or crediting of dividends or dividend equivalents under an Award, the Committee shall have the discretionary authority to (i) disregard such fractional share or unit, (ii) round such fractional share or unit to the nearest lower or higher whole share or unit, or (iii) convert such fractional share or unit into a right to receive a cash payment.

15.7 Other Compensation and Benefit Plans. The amount of any compensation deemed to be received by a Participant pursuant to an Award shall not constitute includable compensation for purposes of determining the amount of benefits to which a Participant is entitled under any other compensation or benefit plan or program of the Company or any Subsidiary, including, without limitation, under any bonus, pension, profit-sharing, life insurance, salary continuation or severance benefits plan, except to the extent specifically provided by the terms of any such plan.

15.8 Plan Binding on Transferees. The Plan shall be binding upon the Company, its transferees and assigns, and the Participant, the Participant's executor, administrator and permitted transferees and beneficiaries. In addition, all obligations of the Company under this Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

15.9 Foreign Jurisdictions. The Committee may adopt, amend and terminate such arrangements and grant such Awards, not inconsistent with the intent of the Plan, as it may deem necessary or desirable to comply with any tax, securities, regulatory or other laws of other jurisdictions with respect to Awards that may be subject to such laws. The terms and conditions of such Awards may vary from the terms and conditions that would otherwise be required by the Plan solely to the extent the Committee deems necessary for such purpose. Moreover, the Board may approve such supplements to or amendments, restatements or alternative versions of the Plan, not inconsistent with the intent of the Plan, as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of the Plan as in effect for any other purpose.

15.10 No Obligation to Notify or Minimize Taxes. The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising an Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award or a possible period in which the Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

15.11 Corporate Action Constituting Grant of Awards. Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Committee or the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board or Committee consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Award Agreement as a result of a clerical error in the papering of the Award Agreement, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement.

15.12 Change in Time Commitment. In the event a Participant's regular level of time commitment in the performance of the Participant's services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an employee of the Company and the employee has a change in status from a full-time employee to a part-time employee) after the date of grant of any Award to the Participant, the Committee has the right in its sole discretion to (i) make a corresponding reduction in the number of shares subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment and (ii) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

15.13 Substitute Awards in Corporate Transactions. Nothing contained in the Plan shall be construed to limit the right of the Committee to grant Awards under the Plan in connection with the acquisition, whether by purchase, merger, consolidation or other corporate transaction, of the business or assets of any corporation or other entity. Without limiting the foregoing, the Committee may grant Awards under the Plan to an employee or director of another corporation who becomes an Eligible Person by reason of any such corporate transaction in substitution for awards previously granted by such corporation or entity to such person. The terms and conditions of the substitute Awards may vary from the terms and conditions that would otherwise be required by the Plan solely to the extent the Committee deems necessary for such purpose. Any shares of Common Stock subject to these substitute Awards shall not be counted against any of the maximum share limitations set forth in the Plan.

16. Legal Compliance

16.1 Securities Laws. No shares of Common Stock will be issued or transferred pursuant to an Award unless and until all then applicable requirements imposed by Federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any exchanges upon which the shares of Common Stock may be listed, have been fully met. As a condition precedent to the issuance of shares pursuant to the grant or exercise of an Award, the Company may require the Participant to take any reasonable action to meet such requirements. The Committee may impose such conditions on any shares of Common Stock issuable under the Plan as it may deem advisable, including, without limitation, restrictions under the Securities Act, as amended, under the requirements of any exchange upon which such shares of the same class are then listed, and under any blue sky or other securities laws applicable to such shares. The Committee may also require the Participant to represent and warrant at the time of issuance or transfer that the shares of Common Stock are being acquired only for investment purposes and without any current intention to sell or distribute such shares. All Common Stock issued pursuant to the terms of this Plan shall constitute "restricted securities," as that term is defined in Rule 144 promulgated pursuant to the Securities Act, and may not be transferred except in compliance herewith and with the registration requirements of the Securities Act or an exemption therefrom. Certificates representing Common Stock acquired pursuant to an Award may bear such legend as the Company may consider appropriate under the circumstances.

16.2 Incentive Arrangement. The Plan is designed to provide an on-going, pecuniary incentive for Participants to produce their best efforts to increase the value of the Company. The Plan is not intended to provide retirement income or to defer the receipt of payments hereunder to the termination of a Participant's employment or beyond. The Plan is thus intended not to be a pension or welfare benefit plan that is subject to Employee Retirement Income Security Act of 1974 ("ERISA"), and shall be construed accordingly. All interpretations and determinations hereunder shall be made on a basis consistent with the Plan's status as not an employee benefit plan subject to ERISA.

16.3 Unfunded Plan. The adoption of the Plan and any reservation of shares of Common Stock or cash amounts by the Company to discharge its obligations hereunder shall not be deemed to create a trust or other funded arrangement. Except upon the issuance of Common Stock pursuant to an Award, any rights of a Participant under the Plan shall be those of a general unsecured creditor of the Company, and neither a Participant nor the Participant's permitted transferees or estate shall have any other interest in any assets of the Company by virtue of the Plan. Notwithstanding the foregoing, the Company shall have the right to implement or set aside funds in a grantor trust, subject to the claims of the Company's creditors or otherwise, to discharge its obligations under the Plan.

16.4 Section 409A Compliance. To the extent applicable, it is intended that the Plan and all Awards hereunder comply with the requirements of Section 409A of the Code or an exemption thereto, and the Plan and all Award Agreements shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A of the Code. Notwithstanding anything in the Plan or an Award Agreement to the contrary, in the event that any provision of the Plan or an Award Agreement is determined by the Committee, in its sole discretion, to not comply with the requirements of Section 409A of the Code or an exemption thereto, the Committee shall, in its sole discretion, have the authority to take such actions and to make such interpretations or changes to the Plan or an Award Agreement as the Committee deems necessary, regardless of whether such actions, interpretations, or changes shall adversely affect a Participant, subject to the limitations, if any, of Applicable Law. If an Award is subject to Section 409A of the Code, any payment made to a Participant who is a "specified employee" of the Company or any Subsidiary shall not be made before the date that is six (6) months after the Participant's "separation from service" to the extent required to avoid the adverse consequences of Section 409A of the Code. For purposes of this Section 16.4, the terms "separation from service" and "specified employee" shall have the meanings set forth in Section 409A of the Code. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on any Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

16.5 Tax Withholding.

(a) The Company shall have the power and the right to deduct or withhold, or require a participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan, but in no event shall such deduction or withholding or remittance exceed the minimum statutory withholding requirements unless permitted by the Company and such additional withholding amount will not cause adverse accounting consequences and is permitted under Applicable Law.

(b) Subject to such terms and conditions as shall be specified in an Award Agreement, a Participant may, in order to fulfill the withholding obligation, (i) tender previously-acquired shares of Common Stock or have shares of stock withheld from the exercise, provided that the shares have an aggregate Fair Market Value sufficient to satisfy in whole or in part the applicable withholding taxes; and/or (ii) utilize the broker-assisted exercise procedure described in Section 6.5 to satisfy the withholding requirements related to the exercise of a Stock Option.

(c) Notwithstanding the foregoing, a Participant may not use shares of Common Stock to satisfy the withholding requirements to the extent that (i) there is a substantial likelihood that the use of such form of payment or the timing of such form of payment would subject the Participant to a substantial risk of liability under Section 16 of the Exchange Act; (ii) such withholding would constitute a violation of the provisions of any law or regulation, or (iii) such withholding would cause adverse accounting consequences for the Company.

16.6 No Guarantee of Tax Consequences. Neither the Company, the Board, the Committee nor any other Person make any commitment or guarantee that any federal, state, local or foreign tax treatment will apply or be available to any Participant or any other Person hereunder.

16.7 Severability. If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

16.8 Stock Certificates; Book Entry Form. Notwithstanding any provision of the Plan to the contrary, unless otherwise determined by the Committee or required by any Applicable Law, rule or regulation, any obligation set forth in the Plan pertaining to the delivery or issuance of stock certificates evidencing shares of Common Stock may be satisfied by having issuance and/or ownership of such shares recorded on the books and records of the Company (or, as applicable, its transfer agent or stock plan administrator).

16.9 Governing Law. The Plan and all rights hereunder shall be subject to and interpreted in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws, and to applicable Federal securities laws.

17. Effective Date, Amendment and Termination

17.1 Effective Date. The effective date of the Plan shall be the date on which the Plan is approved by the requisite percentage of the holders of the Common Stock of the Company; provided, however, that Awards granted under the Plan subsequent to the approval of the Plan by the Board shall be valid if such stockholder approval occurs within one (1) year of the date on which such Board approval occurs.

17.2 Amendment; Termination. The Board may suspend or terminate the Plan (or any portion thereof) at any time and may amend the Plan at any time and from time to time in such respects as the Board may deem advisable or in the best interests of the Company or any Subsidiary; provided, however, that (a) no such amendment, suspension or termination shall materially and adversely affect the rights of any Participant under any outstanding Awards, without the consent of such Participant, (b) to the extent necessary and desirable to comply with any Applicable Law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (c) stockholder approval is required for any amendment to the Plan that (i) increases the number of shares of Common Stock available for issuance under the Plan, or (ii) changes the persons or class of persons eligible to receive Awards. Notwithstanding any other provision of the Plan or any Award Agreement to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, (i) to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A of the Code, or (ii) in a manner that causes an Incentive Stock Option to be treated as a Nonqualified Stock Option. The Plan will continue in effect until terminated in accordance with this Section 17.2; *provided, however*, that no Award will be granted hereunder on or after the tenth anniversary of the date of stockholder approval of this amended and restated Plan (the “**Expiration Date**”); *but provided further*, that Awards granted prior to such Expiration Date may extend beyond that date.

INITIAL BOARD APPROVAL: **June 12, 2020**

INITIAL STOCKHOLDER APPROVAL: **August 4, 2020**

BOARD APPROVAL OF AMENDED AND RESTATED PLAN: **August 29, 2023**

STOCKHOLDER APPROVAL OF AMENDED AND RESTATED PLAN: **October 12, 2023**

Certification

I, David K. Jin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “report”) of Avalon GloboCare 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 presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 14, 2023

By: /s/ David K. Jin
Name: David K. Jin
Title: Chief Executive Officer

Certification

I, Luisa Ingargiola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “report”) of Avalon GloboCare 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 presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 14, 2023

By: /s/ Luisa Ingargiola
Name: Luisa Ingargiola
Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Avalon GloboCare Corp. (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: November 14, 2023

By: /s/ David K. Jin
Name: David K. Jin
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Avalon GloboCare Corp. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: November 14, 2023

By: /s/ Luisa Ingargiola
Name: Luisa Ingargiola
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)