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

FORM 10-Q

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

For the quarterly period ended March 31, 2026

OR

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

For the transition period from _____ to _____

Commission file number 000-21617

ProPhase Labs, Inc.
(Exact name of registrant as specified in its charter)

Delaware	23-2577138
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
626 RXR Plaza, 6th Floor Uniondale, New York	11556
(Address of principal executive office)	(Zip Code)

(516) 989-0763
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0005	PRPH	OTC Markets

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 during the preceding 12 months (or shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding shares as of June 29, 2026
Common Stock, $0.0005 par value	14,016,204

ProPhase Labs, Inc. and Subsidiaries
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ProPhase Labs, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	March 31, 2026 (Unaudited)	December 31, 2025
ASSETS		
Current assets		
Cash and cash equivalents	$ 31	$ 90
Accounts receivable, net	1,543	1,536
Inventory, net	70	70
Prepaid expenses and other current assets	1,469	1,454
Total current assets	3,113	3,150
Property, plant and equipment, net	1,709	2,032
Investment in unconsolidated affiliates	43,266	43,491
Prepaid expenses, net of current portion	150	61
Intangible assets, net	6,522	7,167
Goodwill	3,968	3,968
Other assets	2	2
TOTAL ASSETS	**$ 58,730**	**$ 59,871**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 14,169	$ 12,961
Accounts payable to unconsolidated affiliates	27,572	27,600
Accrued advertising and other allowances	50	50
Finance lease liabilities	3,054	2,824
Short-term loan payable, net of discount of $329 and $451, respectively	4,547	4,418
Short-term loan payable to related party, net of discount of $67 and $132, respectively	558	493
Short-term convertible notes payable, net of discount of $511 and $157, respectively	304	244
Derivative liability	490	50
Deferred revenue	1,840	1,501
Income tax payable	793	281
Other current liabilities	2,731	2,659
Total current liabilities	56,108	53,081
Non-current liabilities:		
Due to sellers (see Note 3)	2,000	2,000
Deferred revenue, net of current portion	788	643
Finance lease liabilities, net of current portion	448	639
Total non-current liabilities	3,236	3,282
Total liabilities	59,344	56,363
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity (deficit)		
Preferred stock authorized 1,000,000, $0.0005 par value, no shares issued and outstanding	-	-
Common stock authorized 1,000,000,000, $0.0005 par value, 14,016,024 and 8,966,406 shares outstanding, respectively	7	4
Additional paid-in capital	127,710	126,481
Accumulated deficit	(78,490)	(73,136)
Treasury stock, at cost, 869,208 and 869,208 shares, respectively (1)	(49,643)	(49,643)
Accumulated other comprehensive loss	(198)	(198)
Total stockholders' equity (deficit)	(614)	3,508
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFECIT)	**$ 58,730**	**$ 59,871**

(1) Net of 600,000 collateral shares. See Note 5.

See accompanying notes to these condensed consolidated financial statements

ProPhase Labs, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Revenues, net	$ 478	$ 1,431
Cost of revenues	311	905
Gross profit	167	526
Operating expenses:		
General and administration	2,772	4,092
Research and development	-	97
Total operating expenses	2,772	4,189
Loss from operations	(2,605)	(3,663)
Other income (expenses)		
Loss from investment in unconsolidated affiliates	(225)	-
Change in fair value of derivative liability	(86)	-
Interest expense	(651)	(539)
Debt extinguishment loss	(278)	(431)
Loss on issuance of debt	(12)	-
Income from disposal of fixed assets	6	-
Other expense	(129)	(45)
Loss from operations before income taxes	(3,980)	(4,678)
Income tax expense	(1,374)	-
Loss from continuing operations after income taxes	(5,354)	(4,678)
Discontinued operations:		
Loss from discontinued operations, net of tax	-	(102)
Gain from disposal of discontinued operations	-	8,746
Income from discontinued operations	-	8,644
Net (loss) income	**$ (5,354)**	**$ 3,966**
Net earnings (loss) per share:		
Loss from continuing operations, basic and diluted	$ (0.43)	$ (1.33)
Income from discontinued operations, basic and diluted	$ -	$ 2.45
Net loss (earnings) per share, basic and diluted	$ (0.43)	$ 1.13
Weighted average common shares outstanding:		
Basic	12,317	3,523
Diluted	12,317	3,523

See accompanying notes to these condensed consolidated financial statements

ProPhase Labs, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data)
(unaudited)

	For the Three Months Ended March 31, 2026						
	Common Stock Shares Outstanding	Par Value	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2026	**8,966,405**	**$ 4**	**$ 126,481**	**$ (73,136)**	**$ (49,643)**	**$ (198)**	**$ 3,508**
Issuance of common stock for cash, net of offering cost of $30	163,900	-	41	-	-	-	41
Issuance of common stock as commitment fee for future financing	549,105	-	-	-	-	-	-
Issuance of common shares and warrants in conjunction with debt issuance	155,000	-	32	-	-	-	32
Issuance of common stock to convert outstanding debt	4,181,614	3	766	-	-	-	769
Stock-based compensation	-	-	390	-	-	-	390
Net loss	-	-	-	(5,354)	-	-	(5,354)
Balance as of March 31, 2026	**14,016,024**	**$ 7**	**$ 127,710**	**$ (78,490)**	**$ (49,643)**	**$ (198)**	**$ (614)**

ProPhase Labs, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data)
(unaudited)
Continued

	For the Three Months Ended March 31, 2025							
	Common Stock Shares Outstanding	**Par Value**	**Additional Paid in Capital**	**Subscription Receivable**	**Accumulated Deficit**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total**
Balance as of January 1, 2025	**29,874,029**	**$ 23**	**$ 129,921**		**$ (58,393)**	**$ (64,000)**	**$ (198)**	**$ 7,353**
Unrealized gain on marketable debt securities	-	-	-	-	-	-	-	-
Issuance of common stock for cash, net of offering cost of $75	11,315,000	6	(10,605)	(480)	-	14,357	-	3,278
Issuance of common stock as commitment fee for future financing	352,176	-	-	-	-	-	-	-
Stock-based compensation (including $455 in prepaid expense)	-	-	521	-	-	-	-	521
Net income	-	-	-	-	3,966	-	-	3,966
Balance as of March 31, 2025	**41,541,205**	**$ 29**	**$ 119,837**	**$ (480)**	**$ (54,427)**	**$ (49,643)**	**$ (198)**	**$ 15,118**

See accompanying notes to these condensed consolidated financial statements

ProPhase Labs, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Cash flows from operating activities		
Net loss from continuing operations	$ (5,354)	$ 3,966
Less: income (loss) from discontinued operations, net of tax	-	8,644
Net loss from continuing operations	(5,354)	(4,678)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	962	1,482
Amortization of debt discount	476	372
Amortization on operating lease right-of-use assets	-	121
Loss from investment in unconsolidated affiliates	225	
Loss on issuance of debt	12	-
Loss (gain) from disposal of fixed assets	(6)	45
Stock-based compensation expense	390	521
Change in fair value of derivative liability	86	-
Debt extinguishment loss	278	431
Changes in operating assets and liabilities:		
Accounts receivable	(7)	(146)
Inventory	-	(2)
Prepaid expenses and other current assets	(104)	(636)
Accounts payable and accrued expenses	1,180	(391)
Accrued diagnostic services	-	12
Deferred revenue	484	(143)
Lease liabilities	39	9
Income tax payable	512	(523)
Other liabilities	79	(452)
Net cash used in operating activities - continuing operations	(748)	(3,978)
Net cash provided by operating activities - discontinued operations	-	597
Net cash used in operating activities	(748)	(3,381)
Cash flows from investing activities		
Proceeds from sale of fixed assets	12	53
Capital expenditures	-	-
Net cash provided by investing activities - continuing operations	12	53
Net cash provided by investing activities - discontinued operations	-	800
Net cash provided by investing activities	12	853
Cash flows from financing activities		
Proceeds from issuance of common shares, net	41	3,278
Proceeds from issuance of note payable, net	288	204
Proceeds from issuance of convertible notes payable	392	-
Repayment of note payable	(44)	(1,509)
Net cash provided by financing activities - continuing operations	677	1,973
Net cash used in financing activities - discontinued operations	-	(35)
Net cash provided by financing activities	677	1,938
Decrease in cash and cash equivalents	(59)	(590)
Cash and cash equivalents at the beginning of the period	90	678
Cash and cash equivalents at the end of the period	**$ 31**	**$ 88**
Supplemental disclosures:		
Cash paid for income taxes	$ -	$ 256
Interest payments	$ 30	$ 376
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock as commitment fee for future financing	$ -	$ 158
Issuance of common stock to convert outstanding debt	$ 769	$ -

See accompanying notes to these condensed consolidated financial statements

ProPhase Labs, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 - Organization and Business

ProPhase Labs, Inc. ("ProPhase", "we", "us", "our" or the "Company") is a next-generation biotech, genomics and consumer products company. We are also focused on licensing, developing and commercializing novel drugs, dietary supplements, compounds and diagnostics.

Our wholly-owned subsidiary, ProPhase Diagnostics, Inc., and two indirectly wholly-owned subsidiaries, ProPhase Diagnostics NY, Inc. and ProPhase Diagnostics NJ, Inc., ceased providing COVID-19 diagnostic testing in May 2025. ProPhase Diagnostics NJ, Inc. still leases the laboratory space in Old Bridge, New Jersey. The labs were forced to cease diagnostic testing when medical insurance carriers ceased paying COVID-19 diagnostic testing claims. On September 22, 2025, the three lab entities filed for a Chapter 11 reorganization in United States Bankruptcy Court for the District of New Jersey. On September 30, 2025, the Court granted the motion for joint administration. The bankruptcy filing is the next step in the Company's legal advisor, Crown Medical Collections, strategic initiative to collect what the Company believes could be tens of millions of dollars in unpaid insurance claims. The Company believes one objective of the bankruptcy filing is to streamline and accelerate recovery of the unpaid insurance claims the Company believes were lawfully owed for approved and completed testing services.

In August 2021, the Company acquired Nebula Genomics, Inc. ("Nebula"), a privately owned personal genomics company, through our wholly-owned subsidiary, ProPhase Precision Medicine Inc. Nebula focuses on genomics sequencing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing can be used to help identify inherited disorders and tendencies, help predict disease risk, help identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. At this time, the Company is taking steps to grow its genomics businesses while also continuing to explore the potential sale of Nebula.

The Company's wholly-owned subsidiary, DNA Complete, Inc. ("DNA Complete"), which was formed on September 24, 2024, for the offering of whole genome sequencing and related services. DNA Complete sequences specimens at Nebula as well as at other laboratories. DNA Complete focuses on genomics testing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing may help to identify inherited disorders and tendencies, predict disease risk, identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. DNA Complete currently offers DNA Complete's whole genome sequencing products direct-to-consumers online with plans to sell in food, drug and mass retail stores and to provide testing for universities conducting genomic research.

The Company's wholly owned subsidiary, ProPhase BioPharma, Inc. ("PBIO"), was formed in June 2022, for the licensing, development and commercialization of novel drugs, dietary supplements and compounds. Licensed compounds currently include Equivir (a OTC, dietary supplement candidate) and Equivir G (prescription drug ("Rx") candidate), two broad-based anti-virals, and Linebacker LB-1 and LB-2, two small molecule proviral integration site for moloney murine leukemia virus ("PIM") kinase inhibitors. The Company also owns the exclusive rights to the BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening test and related intellectual property ("IP") assets.

In connection with the activities of PBIO, in January 2023, the Company acquired exclusive rights to BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening test and related IP assets. The BE-Smart™ test is focused on the early detection of esophageal cancer, and is intended to provide health care providers and patients with data to help determine treatment options. The development of these novel drugs and compounds is highly dependent on how each performs during the testing and development stage, the demand for these product and services once entered into the marketplace, our marketing and service capabilities and our ability to comply with applicable regulatory requirements.

The Company also owns a dietary supplements business under the TK Supplements® brand. The TK Supplements® product line includes Legendz XL®, a male sexual enhancement and Triple Edge XL®, an energy and stamina support product.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of March 31, 2026, the Company had minimal cash resources and a significant working capital deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's plans do not alleviate this substantial doubt.

Management has evaluated the significance of these conditions and has developed plans intended to improve liquidity and support operations. Management's plans include continuing efforts to reduce operating expenditures and preserve cash resources; focusing operations on its remaining core businesses, including genomics and biotechnology activities; pursuing collection and recovery efforts related to outstanding receivables and other claims; evaluating strategic alternatives including potential asset monetization opportunities, partnerships, licensing arrangements and other financing alternatives; and continuing initiatives intended to improve operating efficiency and revenue generation.

Management's plans are subject to numerous uncertainties, many of which are outside the Company's control, including the timing and availability of external financing, realization of anticipated collections and recovery efforts, and achievement of projected operating results. Accordingly, management has concluded that these plans do not alleviate the substantial doubt regarding the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result should the Company be unable to continue as a going concern.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America ("GAAP") for interim financial statements and the rules of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a complete presentation of financial position, results of operations, or cash flows. The accompanying unaudited condensed consolidated financial statements have been prepared by management without audit and should be read in conjunction with our audited consolidated financial statements, including the notes thereto, appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position, consolidated results of operations and other comprehensive loss and consolidated cash flows, for the periods indicated, have been made. The results of operations for the three months ended March 31, 2026 are not necessarily indicative of operating results that may be achieved over the course of the full year.

Use of Estimates

The preparation of condensed consolidated financial statements and the accompanying notes thereto, in conformity with GAAP, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the respective reporting periods. Examples include revenue recognition and the impact of the variable consideration of diagnostic test reimbursement rates, the allowance for credit losses and billing errors, allowances, slow moving and/or dated inventory and associated provisions, the potential impairment of long-lived assets, stock based compensation valuations, income tax asset valuations and assumptions related to accrued advertising.

Our estimates and assumptions are based on historical experience, current trends and other factors that management believes to be relevant at the time the condensed consolidated financial statements are prepared. Management reviews the accounting policies, assumptions, estimates and judgments on a quarterly basis. Actual results could differ from those estimates.

Deconsolidation of Subsidiary

A subsidiary is deconsolidated from the Company's financial statements when the Company no longer has a controlling financial interest in the subsidiary. This generally occurs when the Company loses control through a sale, transfer, or other means, including the expiry of a contractual agreement.

Upon deconsolidation, the Company derecognizes the assets and liabilities of the of the subsidiary from the consolidated balance sheet at their carrying amounts at the date when control is lost. Any retained noncontrolling equity investment in the former subsidiary is remeasured to its fair value at the date control is lost. This fair value becomes the initial carrying amount of the retained investment. See Note 14 for discussion regarding the voluntary bankruptcy filing by the Company's fully owned subsidiaries.

Discontinued Operations

The Company presents discontinued operations when there is a disposal of a component or a group of components that represents a strategic shift that will have a major effect on operations and financial results. The results of discontinued operations are reported in net income (loss) from discontinued operations in the condensed consolidated statements of operations for all periods presented, commencing in the period in which the business is either disposed of or is classified as held for sale, including any gain or loss recognized on closing or adjustment of the carrying amount to fair value less costs to sell. Assets and liabilities related to a business classified as held for sale or meets the criteria for discontinued operations are segregated in the consolidated balance sheets for the current and prior periods presented. Cash flows for continuing and discontinued operations are segregated in the consolidated statements of cash flows for the current and prior periods.

Certain prior period balances related to the Company's reportable segments and discontinued operations have been reclassified to conform to the current presentation in the consolidated financial statements have been prepared by management without audit and should be read in conjunction with our audited consolidated financial statements, including the accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025. In the opinion of management, all adjustments necessary for a fair presentation of the notes to the condensed consolidated financial statements are presented on a continuing operations basis unless otherwise noted.

Reclassifications

The Company has reclassified certain amounts on the condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive loss and condensed consolidated statements of cash flows to conform to current period presentation.

Fair Value of Financial Instruments

We measure assets and liabilities at fair value based on expected exit price as defined by the authoritative guidance on fair value measurements, which represents the amount that would be received on the sale date of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level.

The following are the hierarchical levels of inputs to measure fair value:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The carrying amounts of our financial assets and liabilities, such as cash, accounts receivable, accounts payable, and unsecured note payable, approximate their fair values because of the short-term nature of these instruments.

We account for our marketable securities at fair value, with the net unrealized gains or losses of marketable debt securities reported as a component of accumulated other comprehensive income or loss and marketable equity securities change in fair value reported on the consolidated statement of operations. We measure the fair value of financial instruments, such as derivatives, on an ongoing basis.

See Note 15, "Fair Value Measurements" for more information

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the underlying identifiable assets and liabilities acquired in a business combination. Goodwill and intangible assets deemed to have an indefinite life are not amortized, but instead are assessed for impairment annually. Additionally, if an event or change in circumstances occurs that would more likely than not reduce the fair value of the reporting unit below its carrying value, we would evaluate goodwill at that time.

Revenue Recognition and Accounts Receivable

The Company recognizes revenues in accordance with Financial Accounting Standards Board ("FASB")'s Accounting Standards Codification ("ASC") 606, Revenues from Contracts with Customers. The Company recognizes revenue that represents the transfer of promised goods or services to customers at an amount that reflects the consideration that is expected to be received in exchange for those goods or services. The Company recognizes revenue when performance obligations with our customers have been satisfied. At contract inception, we evaluate the contract to determine if revenue should be recognized using the following five steps: (1) identify the contract with the customer; (2) identify the performance obligations; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company carries its accounts receivable at cost less an allowance for credit losses. Allowances for credit losses are based upon the Company's judgment regarding collectability. On a periodic basis, the Company evaluates its receivables and establish an allowance for credit losses, based on a history of past write-offs, collections, current credit conditions or generally accepted future trends in the industry and/or local economy. Accounts are written off as uncollectible at the time we determine that collections are unlikely. The reserve is not intended to address return activity or disputed balances with ongoing customers, as this should be addressed in a reserve for credit memos with a corresponding charge to revenue.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse.

The provision for, or benefit from, income taxes includes deferred taxes resulting from the temporary differences in income for financial and tax purposes using the liability method. Future realization of deferred income tax assets requires sufficient taxable income within the carryback, carryforward period available under tax law. We evaluate, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by ASC 740-10, "Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused.

The Company accounts for uncertainties in income taxes under the provisions of FASB ASC 740-10-05 (the "Subtopic"). The Subtopic clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The Subtopic prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Subtopic provides guidance on the de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Recently Adopted Accounting Standards

In November 2024, the FASB issued ASU 2024-04, Debt-Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments. This standard clarifies the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion and the application of the induced conversion guidance to a conversion debt instrument. It also clarifies that the incorporation, elimination, or modification of a daily volume-weighted average price ("VWAP") formula does not automatically cause a settlement to be accounted for as an extinguishment. This standard will become effective on a prospective or retrospective basis for interim reporting periods and annual periods beginning after December 15, 2025. Early adoption is permitted. The Company adopted this guidance effective January 1, 2026 on a prospective basis. The adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

Recently Issued Accounting Standards, Not Yet Adopted

In November 2024, the FASB issued ASU No. 2024-03 ("ASU 2024-03"), Disaggregation of Income Statement Expenses (DISE) which requires disaggregated disclosure of income statement expenses for public business entities. The standard requires public business entities to disclose disaggregated information about specific natural expense categories underlying certain income statement expense line items that are considered relevant. The FASB also issued ASU No. 2025-01 ("ASU 2025-01"), Clarifying the Effective Date, which clarifies the adoption date of ASU 2024-03 as annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. The Company is currently evaluating the potential effect of this accounting standard update on its consolidated financial statements and related disclosures.

In September 2025, the FASB issued ASU No. 2025 - 06, Intangibles - Goodwill and Other - Internal - Use Software ("ASU 2025 – 06"), which amends the guidance for accounting for software costs to reflect current software development practices, including iterative and agile methodologies, by removing references to development stages. It also clarifies the criteria for capitalization, which begins when both of the following occur: (1) management has authorized and committed to funding the software project and (2) it is probable that the project will be completed and the software will be used to perform the function intended. ASU 2025 - 06 is effective for fiscal years beginning after December 15, 2027, and interim periods within those fiscal years. Early adoption is permitted. The amendments may be applied either prospectively, retrospectively, or utilizing a modified transition approach. The Company is currently assessing the impact of ASU 2025 - 06 on its condensed consolidated financial statements and disclosures.

In September 2025, the FASB issued ASU 2025-07. This update clarifies the application of derivative accounting to certain contracts and refines the guidance for share-based noncash consideration received from customers. Specifically, ASU 2025-07 introduces a scope exception for contracts that are not exchange-traded and whose underlying is tied to operations or activities specific to one party. It also clarifies that share-based noncash consideration from a customer should initially be accounted for under Topic 606 until the right to receive or retain such consideration becomes unconditional, at which point financial instruments guidance may apply. The effective date for the standard is for fiscal years beginning after December 15, 2026 and interim periods within those fiscal years. Early adoption is permitted. The amendments in ASU 2025-07 should be applied either prospectively or by utilizing a modified retrospective approach. The Company is currently assessing the impact on the Company's condensed consolidated financial statements and disclosures.

In December 2025, the FASB issued ASU 2025-11, Interim Reporting (Topic 270): Narrow-Scope Improvements. This update clarifies interim disclosure requirements and centralizes such requirements within Topic 270. Among other changes, ASU 2025-11 introduces a disclosure principle requiring entities to provide information about significant events or changes since the end of the last annual reporting period that have a material impact, clarifies when duplicative annual disclosures may be omitted from interim reports, and aligns interim reporting requirements with applicable SEC guidance for registrants. This guidance is effective for interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. The amendments in ASU 2025-11 should be applied prospectively. The Company is currently assessing the impact on the Company's condensed consolidated financial statements and disclosures.

In December 2025, the FASB issued ASU 2025-12, Codification Improvements. This update addresses shareholder suggestions on the Accounting Standards Codification and makes other incremental improvements to U.S. GAAP. The amendments make codification updates to a broad range of topics arising from technical corrections, unintended application of the codification, clarifications and other minor improvements. This guidance is effective for annual reporting periods beginning after December 15, 2026 and interim reporting periods within those annual periods. Early adoption is permitted and may be elected on an issue-by-issue basis. The amendments in ASU 2025-12 are to be applied prospectively. The Company is currently assessing the impact on the Company's condensed consolidated financial statements and disclosures.

Note 3 - Asset Acquisition

Stella Diagnostics - Asset Purchase Agreement

On December 15, 2022, the Company entered into an Asset Purchase Agreement (the "Stella Purchase Agreement"), with Stella Diagnostics Inc. ("Stella") and Stella DX, LLC ("Stella DX" and, together with Stella, the "Stella Sellers"), pursuant to which, on January 3, 2023, the Company purchased all of the assets, rights and interests of the Stella Sellers and their affiliates pertaining to the Stella Sellers' BE-Smart Esophageal Pre-Cancer Diagnostic Screening Test and certain clinical assets, including all intellectual property rights (the "Stella Purchased Assets").

As consideration for the Stella Purchased Assets, at closing, the Company (i) paid to the Stella Sellers $3.5 million in cash, minus (a) the secured note Amount of $0.5 million, (b) the Liability Payoff Amount of $1.6 million and (c) the Promissory Note Payoff Amount of $0.4 million, and (ii) issued to Stella DX 10,000 shares of common stock, par value $0.0005 per share, of the Company at a value of $100.00 per share. Total consideration paid was $4.6 million. The Secured Note Amount of $0.5 million and the Promissory Note Payoff of $0.4 million were paid in 2022. The balance of the consideration was paid at closing on January 3, 2023.

In addition to the consideration paid at closing, the Company will issue shares of common stock valued at $2.0 million (the "Milestone Stock") to the Stella Sellers upon a Commercialization Event (as defined in the Stella Purchase Agreement). The Milestone stock was recorded at closing as a non-current liability at its fair value of $2.0 million. Also, the Company is required to pay to the Stella Sellers for each of the seven calendar years during the seven year period commencing on the first day of the calendar year following the date of the Commercialization Event, a non-refundable, non-creditable royalty of 5% of the Adjusted Gross Margin for such Annual Period. As of March 31, 2026, the Commercialization Event had not occurred.

The asset purchase does not qualify as a business combination under FASB ASC 805, *Business Combinations*, and has therefore been accounted for as an asset acquisition. In connection with the Stella Purchased Assets, the Company incurred $0.2 million in transaction costs, which were capitalized as part of the purchase price of the Stella Purchased Assets. The total purchase price for the Stella Purchased Assets was $6.8 million (including the value of the stock to be issued upon the Commercialization Event), which was allocated to the proprietary technology intangible asset acquired. The Company is amortizing the acquired intangible asset on a straight-line basis over its estimated useful life of five years.

Note 4 - Intangible Assets, Net

Intangible assets as of March 31, 2026 and December 31, 2025 consisted of the following (in thousands):

	March 31, 2026	December 31, 2025	Estimated Useful Life (in years)
Trade names	$ 5,550	$ 5,550	15
Proprietary intellectual property	11,064	11,064	5
Customer relationships	1,180	1,180	1
CLIA license	-	-	3
	17,794	17,794	
Less: accumulated amortization	(11,272)	(10,627)	
Total intangible assets, net	$ 6,522	$ 7,167	

Amortization expense for acquired intangible assets was $0.6 million and $0.6 million during the three months ended March 31, 2026 and 2025, respectively. The estimated future amortization expense of acquired intangible assets as of March 31, 2026 is as follows (in thousands):

Remaining periods in 2026	$	1,605
Year ended December 31, 2027		1,731
Year ended December 31, 2028		370
Year ended December 31, 2029		370
Year ended December 31, 2030		370
Thereafter		2,076
	$	6,522

Note 5 - Outstanding Debt

2026 Convertible Notes

On January 13, 2026, the Company entered into a securities purchase agreement (the "Agreement") with an individual investor (the "Holder") providing for the issuance of a 10% convertible promissory note (the "Note") in the principal amount of $240,000. The Convertible Note permits the Holder to convert outstanding principal and accrued interest into shares of common stock at a conversion price that is 75% of the trailing five-day volume weighted average price ("VWAP") immediately preceding the respective conversion date. The Company received cash proceeds of $190,000, which is net of original issue discount of $40,000 and issuance cost of $10,000. The Note has a maturity date on January 13, 2027. Total payments of $264,000 will be made in four monthly installment payments, which won't be started until July 13, 2026 in accordance with the payment schedule pursuant to the note agreement. In consideration for entering into the Agreement, the Company also issued 80,000 shares of common stock to the Investor in connection with the Note.

On January 27, 2026 (the "Issue Date"), the Company entered into a securities purchase agreement (the "January Labrys SPA") with Labrys Fund II, LP ("Labrys"), pursuant to which the Company issued a 10% promissory note (the "January Labrys Note") with a maturity date of January 27, 2027, in the principal sum of $180,000. The Company received cash proceeds of $140,000, which is net of original issue discount of $30,000 and issuance cost of $10,000. In addition, the Company issued 75,000 shares of its common stock to Labrys as a commitment fee pursuant to the January Labrys SPA. The January Labrys Note is convertible into the Company's common stock (subject to the beneficial ownership limitations of 4.99% in the January Labrys Note) after 180 days after the Issue Date at a conversion price at 80% of the lowest traded price over the ten prior trading days immediately preceding the respective conversion date.

On March 10, 2026 (the "Issue Date"), the Company entered into another securities purchase agreement (the "March Labrys SPA") with Labrys, pursuant to which the Company issued a 10% promissory note (the "March Labrys Note") with a maturity date of March 10, 2027, in the principal sum of $78,000. The Company received cash proceeds of $55,000, which is net of original issue discount of $13,000 and issuance cost of $10,000. The March Labrys Note is convertible into the Company's common stock (subject to the beneficial ownership limitations of 4.99% in the March Labrys Note) after 180 days after the Issue Date at a conversion price at 80% of the lowest traded price over the ten prior trading days immediately preceding the respective conversion date.

The conversion option of the 2026 Convertible Notes contains variable conversion price, which fails the equity classification guidance in ASC 815 and is thus precluded from being classified in equity. Therefore, the embedded derivatives are required to be bifurcated from the 2026 Convertible Notes and accounted for at fair value at each reporting date. A fair value of $308,000 was determined for the embedded derivative liabilities on the issuance date. The embedded derivative liabilities will be re-measured to fair value each reporting period until settlement (see Note 15).

March 2026 Future Receipts Financing Agreements

On March 17, 2026, the Company entered into an agreement of sale of future receipts ("First 2026 Future Receipts Financing Agreement") with Legendary Funding Group, LLC ("Legendary") by which Legendary purchased from the Company, its future accounts and contract rights arising from the sale of goods or rendition of services to the Company's customers. The purchase price was $80,000, which was paid to the Company on March 18, 2026, net of a $3,450 origination fee. The Company also incurred a $36,000 brokerage fee. The First 2026 Future Receipts Financing Agreement requires eighteen weekly payments of $6,444 for a total repayment of $116,000 over the term of the agreement. As of March 31, 2026, the outstanding balance under the First 2026 Future Financing Agreement was approximately $70,000, net of $33,000 unamortized debt discount.

On March 17, 2026, the Company entered into an agreement of sale of future receipts ("Second 2026 Future Receipts Financing Agreement") with Immediate Capital Solutions LLC ("Immediate Advances") by which Immediate Advances purchased from the Company, its future accounts and contract rights arising from the sale of goods or rendition of services to the Company's customers. The purchase price was $220,000, which was paid to the Company on March 18, 2026, net of a $8,800 origination fee. The Company also incurred a $69,000 brokerage fee. The Second 2026 Future Receipts Financing Agreement requires twenty-five weekly payments of approximately $11,000 for a total repayment of $289,000 over the term of the agreement. As of March 31, 2026, the outstanding balance under the Second 2026 Future Financing Agreement was approximately $209,000, net of $68,000 unamortized debt discount.

2025 Loan Agreements with Warrants

On June 22, 2025, the Company entered into two identical loan agreements with Ted Karkus, the Company's Chief Executive Officer and the Chairman of the Board of Directors (the "CEO Loan"), and an unaffiliated investor (the "Unaffiliated Investor Loan"), pursuant to which the Company issued two 12 twelve-month non- convertible promissory notes in the principal amount of $625,000 each. Both loans included an original issuance discount of $125,000 and bear an annual interest rate of 10%.

The Company received net cash proceeds of $500,000 from the CEO Loan. In connection with the issuance of the CEO Loan, the Company also issued 50,000 warrants (the "CEO Warrants"), which vested upon the approval by the Company's stockholders of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock (the "Certificate of Amendment") at the special meeting of stockholders held on September 9, 2025. The CEO Warrants have an exercise price of $6.00 for a term of 5.0 years. The grant date fair value of the CEO Warrants were valued at $115,000 using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 98.4%, risk free interest rate of 4.0% and expected warrant life of 5.0 years. The fair value of the CEO Warrants was recorded as an additional debt discount to the note payable.

The Unaffiliated Investor Loan was issued as an exchange to a term note issued in 2024. No additional cash proceeds were provided. The Company accounted for the issuance of the Unaffiliated Investor Loan as an extinguishment of the original debt of $500,000 and the recognition of new debt which is initially measured at its fair value of $433,000. In connection with the issuance of the Unaffiliated Investor Loan, the Company also issued 50,000 unvested warrants (the "Unaffiliated Investor Warrants") to the Unaffiliated Investor. The Unaffiliated Investor Warrants contain the same terms as the CEO Warrants. Accordingly, the Unaffiliated Investor Warrants have a fair value of $115,000 on the issuance date.

2025 Short-term Loans

On August 1, 2025, the Company entered into a note agreement with an individual investor (the "Holder") for cash proceeds of $100,000 (the "First August 2025 Note"), which is net of an original issue discount of $15,000. The First August 2025 Note is due on May 30, 2026. Total payments of $126,750 will be made in four monthly installment payments effective on January 30, 2026 in accordance with the payment schedule pursuant to the note agreement. During the three months ended March 31, 2026, the Company recognized $3,000 interest expense from the amortization of debt discount using the effective interest rate method on the condensed consolidated statement of operations. On January 23, 2026, the Company and the Holder entered into an amendment (the "Amended First August 2025 Note"), pursuant to which at the Holder's option, the First August 2025 Note is convertible into the Company's common stock at a conversion price at 65% of the lowest traded price over the ten prior trading days immediately preceding the respective conversion date. The amendment was accounted as a debt extinguishment. The optional redemption includes an exercise contingency, which fails the equity classification guidance in ASC 815 and is thus precluded from being classified in equity. Therefore, the embedded derivatives are required to be bifurcated from the Amended First August 2025 Note and accounted for at fair value at each reporting date. A fair value of $129,000 was determined for the embedded derivative liabilities. The embedded derivative liabilities will be re-measured to fair value each reporting period until settlement (see Note 15). The Company recognized approximately $126,000 debt extinguishment loss as of the amendment date. During the three months ended March 31, 2026, the Holder converted $62,000 of the Amended First August 2025 Note into 813,362 shares of the Company's common stock. The aggregate fair value of the common stock issued on the conversion date was approximately $113,000. The Company also extinguished approximately $51,000 embedded derivative liability upon the conversion.

On August 14, 2025, the Company entered into a note agreement with an individual investor for cash proceeds of $150,000 (the "Second August 2025 Note"). The Second August 2025 Note is due on August 14, 2026 and requires the Company to make interest only quarterly payments in the amount of $9,452 with a $159,452 balloon payment at the end of the term.

On August 1, 2025 and September 11, 2025, the Company entered into two note agreements (collectively the "Third August 2025 Notes") with same individual investor (the "Lender") for an aggregate cash proceeds of $400,000, which is net of original issue discount and issuance cost of $76,000. The Third August 2025 Notes has a 10 months term. Total payments of $528,000 will be made in four monthly installment payments, which won't be started until 6 months from the issuance date in accordance with the payment schedule pursuant to the note agreements. During the three months ended March 31, 2026, the Company recognized $18,000 interest expense from the amortization of debt discount using the effective interest rate method on the condensed consolidated statement of operations. On January 23, 2026, the Company and the Lender entered into an amendment to amend the note that was issued on August 1, 2025 (the "Amended Note") with principal amount of $238,000, pursuant to which at the Lender's option, the Amended Note is convertible into the Company's common stock at a conversion price at 65% of the lowest traded price over the ten prior trading days immediately preceding the respective conversion date. The amendment was accounted as a debt extinguishment. The optional redemption includes an exercise contingency, which fails the equity classification guidance in ASC 815 and is thus precluded from being classified in equity. Therefore, the embedded derivatives are required to be bifurcated from the Amended August Note and accounted for at fair value at each reporting date. A fair value of $289,000 was determined for the embedded derivative liabilities. The embedded derivative liabilities will be re-measured to fair value each reporting period until settlement (see Note 15). The Company recognized approximately $287,000 debt extinguishment loss as of the amendment date. During the three months ended March 31, 2026, the Lender converted $85,000 of the Amended August Note into 1,010,875 shares of the Company's common stock. The aggregate fair value of the common stock issued on the conversion date was approximately $144,000. The Company also extinguished approximately $59,000 embedded derivative liability upon the conversion.

On November 6, 2025, the Company entered into a note agreement (the "November 2025 Note") with an individual investor for an aggregate cash proceeds of $135,000, which is net of original issue discount and issuance cost of $28,000. The November 2025 Notes has a 10 months term. Total payments of $181,000 will be made in four monthly installment payments, which won't be started until 6 months from the issuance date in accordance with the payment schedule pursuant to the note agreements. During the three months ended March 31, 2026, the Company recognized $12,000 interest expense from the amortization of debt discount using the effective interest rate method on the condensed consolidated statement of operations.

On December 22, 2025, the Company entered into a note agreement (the "First December 2025 Note") with an individual investor for an aggregate cash proceeds of $50,000, which is net of original issue discount and issuance cost of $8,000. The First December 2025 Notes has a 10 months term. Total payments of $64,000 will be made in four monthly installment payments, which won't be started until 6 months from the issuance date in accordance with the payment schedule pursuant to the note agreements. During the three months ended March 31, 2026, the Company recognized $3,000 interest expense from the amortization of debt discount using the effective interest rate method on the condensed consolidated statement of operations.

On December 26, 2025, the Company entered into a note agreement (the "Second December 2025 Note") with an individual investor for an aggregate cash proceeds of $75,000, which is net of original issue discount and issuance cost of $19,000. The Second December 2025 Notes has a 10 months term. Total payments of $105,000 will be made in four monthly installment payments, which won't be started until 6 months from the issuance date in accordance with the payment schedule pursuant to the note agreements. During the three months ended March 31, 2026, the Company recognized $7,000 interest expense from the amortization of debt discount using the effective interest rate method on the condensed consolidated statement of operations.

August 2025 Future Receipts Financing Agreements

On August 22, 2025, the Company entered into two agreements of sale of future receipts ("August Future Receipts Financing Agreements") with Terrapin Business Funding, LLC ("Terrapin") by which Terrapin purchased from the Company, its future accounts and contract rights arising from the sale of goods or rendition of services to the Company's customers. The Company received net cash proceeds of $700,000 on August 25, 2025, which was net of $188,000 origination fee and $553,000 distribution from the flow of funds to pay off the remaining balance pursuant to the Libertas Financing Agreement.

The August Future Receipts Financing Agreements require twelve monthly payments of $120,083 for a total repayment of $1.4 million over the term of the agreement. No payment has been made as of March 31, 2026.

In connection with the issuance of the August Future Receipts Financing Agreements, the Company also issued 50,000 warrants (the "August Warrants") as an additional issuance cost. The Warrants have an exercise price of $5.00 per share for a term of 5.0 years. The grant date fair value of the August Warrants were valued at $120,000 using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 98.3%, risk free interest rate of 3.8% and expected warrant life of 5.0 years. The fair value of the August Warrants was recorded as an additional debt discount to the notes payable.

During the three months ended March 31, 2026, the Company recognized an aggregate of $73,000 interest expense from the amortization of debt discount using the effective interest rate method. As of March 31, 2026, the outstanding balance under the August Future Financing Agreement was $1.2 million, net of debt discount of $104,000.

September 2025 Future Receipts Financing Agreements

On September 29, 2025, the Company entered into an agreement of sale of future receipts ("September Future Receipts Financing Agreement") with Stage Advance, LLC ("Stage Advance") by which Stage Advance purchased from the Company, its future accounts and contract rights arising from the sale of goods or rendition of services to the Company's customers. The purchase price was $330,000, which was paid to the Company on September 29, 2025, net of a $6,600 origination fee. The Company also incurred a $77,000 brokerage fee. The September Future Receipts Financing Agreement requires twenty weekly payments of $19,800 for a total repayment of $396,000 over the term of the agreement.

During the three months ended March 31, 2026, the Company recognized an aggregate of $35,000 interest expense from the amortization of debt discount using the effective interest rate method. As of March 31, 2026, the outstanding balance under the September Future Financing Agreement was $158,000.

July 2025 Private Placement

On July 22, 2025, the Company entered into two security purchase agreements with two investors (the "Investors") for the sale and issuance of two senior secured convertible notes (the "July 2025 Notes") for an aggregate principal amount of $3.8 million, with cash investment amount of $3.0 million after 20% original issue discount of $750,000. The Company received net cash proceeds of $2.8 million after repayment of certain obligations from the flow of funds.

The July 2025 Notes mature on July 22, 2026, bear interest at 10% per annum on the original principal face amount and provide for other customary terms and covenants. The July 2025 Notes are not convertible for 4 months after execution and may be prepaid at any time without penalty. After the July 2025 Notes conversion waiting period of 4 months, the July 2025 Notes permit holders to convert outstanding principal and accrued interest into shares of common stock at a conversion price that is the lower of 80% of the trailing ten-day volume weighted average price ("VWAP") or a fixed maximum price, but with a floor price and certain caps on conversion pursuant to and limited by the terms of the notes, to prevent excessive dilution. The optional redemption includes an exercise contingency, which fails the equity classification guidance in ASC 815 and is thus precluded from being classified in equity. Therefore, the embedded derivatives are required to be bifurcated from the July 2025 Notes and accounted for at fair value at each reporting date. A fair value of $2.1 million was determined for the embedded derivative liabilities. The embedded derivative liabilities will be re-measured to fair value each reporting period until settlement (see Note 15).

The Company also issued common stock purchase warrants to acquire up to 525,000 shares of common stock (the "July Warrants"). The July Warrants are exercisable at an exercise price of $5.00 per share (subject to adjustment) and expire 5 years from their date of issuance. The Company assessed the classification of the Warrants and determined that the Warrants are equity classified. The relative fair value of the July Warrants on the issuance date was $1.3 million, which was recorded as an additional debt discount to the July 2025 Notes. The relative fair value was derived using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 97.9%, risk free interest rate of 3.9% and expected warrant life of 5.0 years.

During the three months ended March 31, 2026, the Investors converted approximately $386,000 of the July 2025 Notes, including $7,000 accrued interest into 2,357,376 shares of the Company's common stock. The aggregate fair value of the common stock issued on the conversion date was approximately $511,000, which resulted a debt extinguishment loss of approximately $126,000. The Company also extinguished approximately $126,000 embedded derivative liability upon the conversion, which was recognized as debt extinguishment gain on the condensed consolidated statement of operations.

During the three months ended March 31, 2026, the Company recognized an aggregate of $141,000 interest expense from the amortization of debt discount using the effective interest rate method. As of March 31, 2026, the remaining outstanding balance for the July 2025 Notes were approximately $7,000 net of debt discount of $15,000.

ERC Claim and Risk Participation Agreement

In August 2023, the Company filed for the Employee Retention Credit ("ERC") for $2.2 million. The ERC is a refundable tax credit for businesses that continued to pay employees while sustaining a full or partial suspension of operations limiting commerce, travel or group meetings due to COVID-19 pandemic and orders from an appropriate governmental authority or had significant declines in gross receipts from second quarter of 2020 to second quarter of 2021. The Company sustained a partial suspension of operations during this time due to governmental orders. Eligible employers can claim the ERC on an original or adjusted employment tax return for a period within those dates.

On September 16, 2024 ("Agreement Date"), the Company, as seller, received $1.9 million as a purchase price (the "Purchase Price") for the sale of the Company's rights, title and interest per a Risk Participation of ERC Claim Agreement, dated September 13, 2024 ("Agreement") by and between the Company and 1861 Acquisition LLC (the "Buyer"). The Company also incurred an issuance cost of $154,000.

The Agreement transferred all of the Company's rights to receive any and all payments, proceeds or distributions of any kind (without set-off, deduction or withholding of any kind), including interest, from the United States Internal Revenue Service (the "IRS") in respect of the employee retention credits duly and timely claimed by Seller on account of qualified wages paid by Seller and identified as a "Claim for Refund" under Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the second (2nd), third (3rd) and fourth (4th) quarters of 2020, and the first (1st) and second (2nd) quarters of 2021 (the "Tax Refund Claim") in the aggregate amount of $2.2 million ("Transferred Interests").

The Company expects the IRS to approve or deny its claim within the 24 months from the Agreement Date. Upon approval and payment of the claim, the Company will settle the outstanding balance in cash to the Buyer. In the event that the IRS disallows all or a portion of the ERC, the Buyer has the demand right to put all or a part of the disallowed portion back to the Company at a price equal to 85% of the impaired amount, plus interest at 10% per annum, calculated from the date of September 13, 2024 until payment is made.

The Company elected to account for the ERC by analogy to IAS 20 when there was reasonable assurance of receipt, which was determined to be when the approval was received by the IRS. During the year ended December 31, 2025, the Company received approval for all refunds from the IRS in the amount of $2.2 million, of which $1.9 million was passed through to the Buyer and settled a portion of the ERC note and is included in other income on the condensed consolidated statements of operations, and the remaining of $272,000 was offset the Company's outstanding tax liability by the IRS. The offset against the IRS liabilities triggered the Seller's put back right, and therefore the Company is required to repurchase back this portion at 85% at $231,000. As of March 31, 2026, the remaining outstanding balance under the Agreement was approximately $231,000.

Collateralized Loan Agreement

On November 21, 2024 the Company entered into a financing agreement (the "2024 Collateralized Loan Agreement") with CJEF Capital Partners PTE Ltd. ("CJEF"), to provide the Company with loan funding to be secured by 600,000 shares of common stock (the "2024 Collateralized Loan"). Funding is to be provided in tranches and shall mature 2 years from date of funding. Collateral retained by CJEF will be pledged and utilized to secure each funding and to be retained until all principal and interest have been paid. Interest will accrue on the outstanding principal amount of the 2024 Collateralized Loan at 6% per annum (payable semi-annually in advance) and an arranger fee of 5% will be retained by CJEF from Loan proceeds. As of March 31, 2026, the Company has been provided funding of $500,000 against the 2024 Collateralized Loan agreement, with the entire balance remaining outstanding.

On October 14, 2025, the Company entered into a Share Financing Agreement (the "2025 Collateralized Loan Agreement") with Oceanview Consultant Partners Ltd. ("Oceanview"), to provide the Company with loan financing funding to be secured by Company's common shares (the "2025 Collateralized Loan"). Funding is to be provided in tranches and shall mature 1 year from date of funding. the Company has been provided funding of $900,000 against the 2025 Collateralized Loan, with the entire balance remaining outstanding. As of March 31, 2026, approximately 1,360,000 common shares have been issued to secured the 2025 Collateralized Loan. Collateral retained by Oceanview will be pledged and utilized to secure each funding and is to be retained until all principal and interest have been paid. Interest will accrue on the outstanding principal amount of the Collateralized Loan at 6% per annum, with interest only payable monthly and an arranger fee of 6% will be retained by Oceanview from Loan proceeds.

Note 6 - Stockholders' Equity

Preferred Stock

The preferred stock authorized under our certificate of incorporation may be issued from time to time in one or more series. As of March 31, 2026 and December 31, 2025, no shares of preferred stock had been issued.

Common Stock Dividends

No dividends were declared during the three ended March 31, 2026 and 2025.

Common Stock

Common ATM Offering

On December 19, 2025, the Company entered into an Sales Agreement (the "2025 Sales Agreement") with WestPark Capital, Inc. (the "WestPark"), pursuant to which the Company may offer and sell, from time to time through WestPark, shares of our common stock having an aggregate offering price of up to $5.3 million, subject to the terms and conditions of the Sales Agreement. WestPark is entitled to a commission equal to 3% of the gross sales price per share for all shares sold through it as our agent, and the Company will receive the net proceeds after deducting this commission and any offering expenses.

During the three months ended March 31, 2026, the Company issued 163,900 shares of common stock pursuant to the 2025 Sales Agreement. The Company received cash proceeds of $40,000, which was net of issuance cost of $30,000.

2026 Equity Line of Credit – Generating Alpha

On January 16, 2026, the Company entered into a Stock Purchase Agreement ("the Agreement") with Generating Alpha Ltd. ("the Investor"), pursuant to which the Investor committed to provide the Company with up to ten million dollars ($10,000,000) of equity capital over time, at the Company's election and subject to the terms and conditions set forth in the Agreement.

The Agreement establishes an equity line facility that provides the Company with the right, but not the obligation, to sell shares of common stock to the Investor from time to time. The Company retains full discretion over its access to the facility and there is no requirement that the Company access the facility at any time.

In connection with entering into the Agreement, the Company issued 549,105 shares of common stock and a prefunded common stock purchase warrant to acquire up to 240,369 shares of common stock as a commitment fee. The warrant has an exercise price of $0.00 per share and is exercisable on a cashless basis, subject to customary ownership limitations.

During the three months ended March 31, 2026, the Company did not issue any shares of common stock pursuant to the Agreement.

The 2025 Directors' Equity Compensation Plan

On September 9, 2025, the stockholders of the Company approved the 2025 Directors' Equity Compensation Plan (the "2025 Directors' Plan") at the 2025 Special Meeting. The 2025 Directors' Plan amended and restated the Company's Amended and Restated 2022 Directors' Equity Compensation Plan and provided for an increase in the number of shares reserved for issuance under the plan by 50,000 shares.

During the three months ended March 31, 2026, no stock options were issued under the 2025 Directors' Plan.

As of March 31, 2026, the number of shares authorized for issuance under the 2025 Directors Plan was 60,000, which included the number of shares available under the 2022 Directors Plan immediately prior the stockholder approval of the 2025 Directors' Plan as described below.

The 2022 Directors' Equity Compensation Plan

On May 19, 2022, the stockholders of the Company approved the 2022 Directors' Equity Compensation Plan (the "2022 Directors' Plan") at the 2022 Annual Meeting of Stockholders of the Company (the "2022 Annual Meeting"). The 2022 Directors' Plan amended and restated the Company's Amended and Restated 2010 Directors' Equity Compensation Plan and provided for an increase in the number of shares reserved for issuance under the plan by 30,000 shares and for the adjustment of the per share exercise price of stock options granted under the 2022 Plan in the event of any change in the outstanding shares of common stock of the Company as a result of, among other things, any distribution or special dividend to stockholders of shares, cash or other property (other than regular cash dividends).

On June 16, 2023 the stockholders of the Company approved the Amended and Restated 2022 Directors' Equity Compensation Plan (the "Amended 2022 Directors' Plan") at the 2023 Annual Meeting of Stockholders of the Company. The Amended 2022 Directors' Plan provides for an increase in the number of shares reserved for issuance under such plan by 15,000 shares.

During the three months ended March 31, 2026, no stock options were issued under the 2025 Directors' Plan.

There were 10,000 shares of common stock available to be issued under the 2022 Directors' Plan immediately prior the stockholder approval of the 2025 Directors' Plan.

The 2025 Equity Compensation Plan

On September 9, 2025, the stockholders of the Company approved the 2025 Equity Compensation Plan (the "2025 Plan") at the 2025 Special Meeting. The 2025 Plan amended and restated the Company's Amended and Restated 2022 Equity Compensation Plan and provided for an increase in the number of shares reserved for issuance under the plan by 300,000 shares.

During the three months ended March 31, 2026, no stock options issued under the 2025 Plan.

As of March 31, 2026, the number of shares authorized for issuance under the 2025 Plan was 233,203, which included the number of shares available under the 2022 Plan immediately prior the stockholder approval of the 2025 Plan as described below.

The 2022 Equity Compensation Plan

On May 9, 2022, the stockholders of the Company approved the 2022 Equity Compensation Plan (the "2022 Plan") at the 2022 Annual Meeting. The 2022 Plan amended and restated the Company's Amended and Restated 2010 Equity Compensation Plan and provided for an increase in the number of shares reserved for issuance under the plan by 1,00,000 shares and for the adjustment of the per share exercise price of stock options granted under the 2022 Plan in the event of any change in the outstanding shares of common stock of the Company as a result of, among other things, any distribution or special dividend to stockholders of shares, cash or other property (other than regular cash dividends).

During the three months ended March 31, 2026, no stock options issued under the 2025 Plan.

There were 3,375 shares of common stock available to be issued under the 2022 Plan immediately prior the stockholder approval of the 2025 Plan.

Summary of all option grants

The following table summarizes stock option activity during the three months ended March 31, 2026, (in thousands, except per share data).

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Total Intrinsic Value
Outstanding as of January 1, 2026	478	$ 48.60	4.6	$ -
Granted	-	-		
Forfeited/exprired	-	-		
Outstanding as of March 31, 2026	478	$ 48.60	4.3	$ -
Options vested and exercisable	340	$ 53.72	3.9	$ -

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the closing stock price of $0.09 for the Company's common stock on March 31, 2026.

Stock Warrants

The following table summarizes warrant activity during the three months ended March 31, 2026 (in thousands, except per share data):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding as of January 1, 2026	757	$ 9.58	4.4
Granted	240	-	5.3
Outstanding as of March 31, 2026	997	7.27	4.4
Warrants vested and exercisable	997	$ 7.27	4.4

During the three months ended March 31, 2026, the Company granted warrants to purchase 240,369 shares of the Company's common stock in connection with entering into the 2026 Equity Line of Credit agreement as a commitment fee. The warrant has an exercise price of $0.00 per share and is exercisable on a cashless basis, subject to customary ownership limitations. The fair value of the warrants was $0.16 per share which was equal to the stock price on the issuance date.

The Company recognized approximately $438,000 and $372,000 of share-based compensation expense during the three months ended March 31, 2026 and 2025, respectively. The Company will recognize an aggregate of approximately $2.1 million of remaining share-based compensation expense related to outstanding stock options over a weighted average period of 2.5 years.

Note 7 – Income Taxes

We recognize tax assets and liabilities for future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for net operating loss carryforwards. Management evaluated the deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including historical profitability and projections of future reversals of temporary differences and future taxable income. We are required to establish a valuation allowance for deferred tax assets if management determines, based on available evidence at the time the determination is made, that it is not more likely than not that some portion or all of the deferred tax assets will be realized. As a result of historical losses from continuing operations, we have recorded a full valuation allowance against the net deferred tax assets. Judgment is required to estimate forecasted future taxable income, which may be impacted by future business developments, actual results, tax initiatives, legislative, and other economic factors. The Company will continue to monitor income levels and potential changes to its operating and tax model, and other legislative or global developments in its determination.

Note 8 – Commitments and Contingencies

License Agreements

Linebacker LB1 and LB2

In July 19, 2022, the Company through its wholly-owned subsidiary ProPhase BioPharma entered into a License Agreement (the "Linebacker License Agreement") with Global BioLife, Inc. (the "Licensor"), with an effective date of July 18, 2022 (the "Linebacker Effective Date"), pursuant to which it acquired from Licensor a worldwide exclusive right and license under certain patents identified in the Linebacker License Agreement (the "Licensed Patents") and know-how (collectively, the "Licensed IP") to exploit any compound covered by the Licensed Patents (the "Licensed Compound"), including Linebacker LB1 and LB2, and any product comprising or containing a Licensed Compound ("Licensed Products") in the treatment of cancer, inflammatory diseases or symptoms, memory-related syndromes, diseases or symptoms including dementia and Alzheimer's Disease (the "Field"). Under the terms of the Linebacker License Agreement, the Licensor reserves the right, solely for itself and for GRDG Sciences, LLC ("GRDG") to use the Licensed Compound and Licensed IP solely for research purposes inside the Field and for any purpose outside the Field.

Subject to certain conditions set forth in the Linebacker License Agreement, the Company may grant sublicenses (including the right to grant further sublicenses) to its rights under the Linebacker License Agreement to any of its affiliates or any third party with the prior written consent of Licensor, which consent may not be unreasonably withheld. Either party to the Linebacker License Agreement may assign its rights under the Linebacker License Agreement (i) in connection with the sale or transfer of all or substantially all of its assets to a third party, (b) in the event of a merger or consolidation with a third party or (iii) to an affiliate; in each case contingent upon the assignee assuming in writing all of the obligations of its assignor under the Linebacker License Agreement.

Under the terms of Linebacker License Agreement, the Company is required to pay to Licensor a one-time upfront license fee of $50,000 within ten days of the Linebacker Effective Date and must pay an additional $900,000 following the achievement of a first Phase 3 study which may be required by FDA for the first Licensed Product and an additional $1.0 million upon the receipt of regulatory approval of a New Drug Application for the first Licensed Product.

During the term of the Linebacker License Agreement, the Company is also required to pay to Licensor 3% royalties on Net Revenue (as defined in the Linebacker License Agreement) of each Licensed Product, but no less than a minimum royalty of $250,000 of Net Revenue per year minus any royalty payments for any required third party licenses.

In connection with the Linebacker License Agreement, the Company did not incur any expenses for the three months ended March 31, 2026 and 2025, respectively. No clinical studies have begun under this agreement.

Equivir

In March 2023, we commenced patient enrollment in a randomized, placebo-controlled clinical trial of Equivir to evaluate its effect on upper respiratory tract infections. Vedic Lifesciences, a leading clinical research organization, is contracted to conduct the combination prophylactic and therapeutic study, which will be conducted at 8 sites. We currently anticipate trial completion launching Equivir (dietary supplement) in the United States toward the end of 2025.

In connection with the license agreement relating to Equivir, for the three months ended March 31, 2026 and 2025, the Company did not incur any expenses for the three months ended March 31, 2026 and 2025, respectively.

BE-Smart™ Esophageal Pre-Cancer Diagnostics Screening Test

In March 2023, in connection with the asset acquisition of Stella Diagnostics, Inc., we announced a collaboration for the continued development of our BE-Smart™ Esophageal Pre-Cancer diagnostic screening test. The BE-Smart™ test is designed to detect molecular biomarkers associated with Barrett's Esophagus and progression to esophageal adenocarcinoma.

On June 17, 2025, we announced the successful completion of a key validation study for the BE-Smart™ molecular diagnostic test. The study demonstrated a technical success rate greater than 95% using esophageal brush cytology samples, confirming the test's compatibility and reliability with both traditional forceps biopsy and less invasive brush biopsy techniques. Based on these results, we are continuing commercialization of BE-Smart™ as a Laboratory Developed Test ("LDT") and Research Use Only ("RUO") product, with steps towards commercialization planned for the third quarter of 2025 and broader insurance-backed commercialization targeted for 2026. These timelines are forward-looking statements and are subject to various risks and uncertainties, including, but not limited to, regulatory developments, payer coverage decisions, and market adoption rates.

On March 31, 2025, the U.S. District Court for the Eastern District of Texas vacated the U.S. Food and Drug Administration's ("FDA") Final Rule that would have expanded FDA oversight of LDTs, holding that the agency exceeded its statutory authority. The court remanded the matter to the Department of Health and Human Services for reconsideration. The FDA did not appeal within the 60-day period, which ended May 30, 2025, and, as a result, the rule is no longer in effect and compliance deadlines are not enforceable. Oversight of LDTs, including BE-Smart™, currently reverts to the existing Clinical Laboratory Improvement Amendments ("CLIA") framework administered by the Centers for Medicare & Medicaid Services. Future legislative or regulatory action could alter this framework.

As a result certain LDTs, including BE-Smart™, are not currently subject to direct FDA oversight, allowing for a faster market entry while maintaining rigorous internal validation and quality control standards. If new requirements were imposed, we could be required to obtain pre-market clearance or approval before commercialization, which could delay our market entry, increase development and regulatory costs, and potentially require changes to the test.

Based on published industry data and internal estimates, the U.S. market for the test is approximately 6 to 7 million endoscopic procedures annually, representing an addressable market opportunity of over $10 billion. The market opportunity estimate reflects management's judgment, is based on available industry data, and is subject to inherent uncertainties.

For the three months ended March 31, 2026 and 2025, we did not incur any expenses related to the BE-Smart™ license agreement.

On August 6, 2025, the United States Patent and Trademark Office issued U.S. Patent No. 12,379,378 B2, covering the BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening Test. This newly issued patent further strengthens our intellectual property position for BE-Smart™ technology and supports our continued efforts to commercialize the test for early detection and risk stratification of Barrett's esophagus and related esophageal conditions.

We continue to own the full intellectual property portfolio supporting the BE-Smart™ test, including a foundational patent family covering molecular markers of esophageal disease progression, with issued patents and pending applications expected to provide protection until 2040. We remain positioned to capitalize on favorable regulatory and clinical practice trends supporting minimally invasive screening methods, although there can be no assurance that commercialization will occur within the anticipated timeframe or that adoption will meet our expectations.

Litigation

The Company is involved in various legal proceedings arising in the ordinary course of business, including matters relating to commercial contracts, lease obligations, accounts receivable collections, and bankruptcy-related proceedings associated with ProPhase Diagnostics, Inc. and its subsidiaries. Certain of these matters are described in Part II, Item 1, "Legal Proceedings," of this Quarterly Report, which disclosure is incorporated herein by reference.

Management evaluates litigation contingencies on a quarterly basis in accordance with ASC 450, Contingencies. As of March 31, 2026, amounts have been accrued for matters where a loss is considered probable and reasonably estimable. For other matters, management either believes an unfavorable outcome is not probable or cannot reasonably estimate the possible loss or range of loss. Accordingly, no additional accruals have been recorded. The ultimate resolution of these matters could differ from current estimates and may have a material effect on future operating results, cash flows, or financial position.

Note 9 – Leases

Operating Leases

New Jersey Laboratory Lease

On October 23, 2020, we completed the acquisition of CPM, which included a 4,000 square foot CLIA accredited laboratory located in Old Bridge, New Jersey, which was owned by CPM (which is now known as ProPhase Diagnostics NJ, Inc.). The lease was renewed in February 2023, for an additional 36 months until February 2026. The monthly base is $5,500 per month. The lease renewal resulted in the recognition of an additional right-of-use asset and operating lease liability of $170,000, respectively in Fiscal 2023.

As a result of the deconsolidation of PDX (see Note 14), the operating lease liability and right-of-use asset associated with the New Jersey operating lease was derecognized on the Company's condensed consolidated balance sheet as of March 31, 2026.

New York Second Floor Lease

On December 8, 2020, the Company entered into a Lease Agreement (the "NY Second Floor Lease") with BRG Office L.L.C. and Unit 2 Associates L.L.C. (the "Landlord"), pursuant to which the Company leases certain premises located on the second floor (the "Second Floor Leased Premises") of 711 Stewart Avenue, Garden City, New York (the "Building"). The Second Floor Leased Premises serve as the Company's second location and corporate headquarters, offering a wide range of laboratory testing services for diagnosis, screening and evaluation of diseases, including COVID-19 and Respiratory Pathogen Panel Molecular tests.

On June 10, 2022, the Company entered into a First Amendment to the NY Second Floor Lease (the "Second Floor Lease Amendment"). The Second Floor Lease Amendment amends the NY Second Floor Lease to provide that any uncured default by the Company or any of its affiliate under the NY First Floor Lease (defined below) will constitute a default by the Company under the NY Second Floor Lease.

On March 1, 2025, the Company entered into a Surrender Agreement with the Landlord, pursuant to which the Company agreed to surrender the Second Floor Leased Premises on or before May 30, 2025 (the "Surrender Date"). Under the agreement, the Company will remain responsible for rent and other charges through the Surrender Date and will pay the Landlord a settlement amount of approximately $740,000 in seven equal monthly installments from June 1, 2025 through December 1, 2025. Upon timely performance of the Company's obligations under the Surrender Agreement, the NY Second Floor Lease will be deemed terminated as of the Surrender Date, and the Company will have no further obligations thereunder, other than as set forth in the Surrender Agreement. As of the date of this report, the Company has made all required payments under the Surrender Agreement. As of the date of this report, the Company has made all required payments under the Surrender Agreement.

New York First Floor Lease

On June 10, 2022, the Company entered into a second Lease Agreement (the "NY First Floor Lease") with Landlord, pursuant to which the Company leases approximately 4,516 sq. feet located on the first floor (the "NY First Floor Leased Premises") of the Building. As described above, the Company currently leases space on the second floor of the Building. The First Floor Lease was terminated in 2025.

Finance Leases

On April 19, 2023, the Company entered into a master lease agreement for laboratory equipment (the "First Equipment Lease") with a vendor. The First Equipment Lease has a 5-year term and is recognized as a finance lease under ASC 842. The present value of the minimum future obligations of $1.5 million at inception was calculated based on an interest rate of 8.0%, which was recognized in finance lease liabilities in the condensed consolidated balance sheet.

On July 21, 2023, the Company entered into a master lease agreement for a laboratory equipment (the "Second Equipment Lease") with a vendor. The Second Equipment Lease has a 4-year term and is recognized as a finance lease under ASC 842. The present value of the minimum future obligations of $5.1 million at inception was calculated based on an interest rate of 7.4%, which was recognized in finance lease liabilities in the condensed consolidated balance sheet.

At March 31, 2026 and December 31, 2025, the Company had finance lease liabilities of approximately $3.5 million and $2.8 million, respectively, and finance lease assets within property and equipment, net of approximately $1.7 million and $2.0 million, respectively, which were included in the condensed consolidated balance sheets.

The following summarizes quantitative information about our operating leases (amounts in thousands):

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Operating leases:		
Operating lease expense	$ -	$ 239
Total operating lease expense	$ -	$ 239
Finance leases:		
Interest lease cost	$ 38	$ 83
Depreciation expense	317	392
Total finance lease expense	$ 355	$ 475

Other information related to the Company's leases is shown below (dollar amounts in thousands):

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Operating cash flows used in operating leases	$ (1)	$ (1)

	March 31, 2026	**December 31, 2025**
Weighted-average remaining lease term – operating leases (in years)	-	-
Weighted-average remaining lease term – finance leases (in years)	1.8	2.1
Weighted-average discount rate – operating leases	N/A	N/A
Weighted-average discount rate – finance leases	7.43%	7.43%
Finance lease asset [(1)]	$ 1,660	$ 1,977

(1) As of March 31, 2026 and December 31, 2025, the Company had recorded accumulated depreciation of approximately $3.4 million and $3.1 million for the finance lease asset, respectively. Finance lease assets are recorded within property and equipment, net on the Company's Condensed Consolidated Balance Sheets.

Maturities of the Company's remaining finance lease are as follows (in thousands):

	Finance Lease
Remaining periods in 2026	$ 2,774
Year Ended December 31, 2027	824
Total lease payments	3,598
Less present value discount	(96)
Total	$ 3,502

Note 10 - Segment Information

The Company has identified two operating segments, diagnostic services and consumer products, based on the manner in which the Company's CEO, as Chief Operating Decision Maker, assesses performance and allocates resources across the organization. The operating segments are organized in a manner that depicts the difference in revenue generating synergies that include the separate processes, profit generation and growth of each segment. The diagnostic services segment provides diagnostic information services to a broad range of customers in the United States, including health plans, third party payers and government organizations. The consumer products segment is engaged in the research, development, manufacture, distribution, marketing and sale of OTC consumer healthcare products and dietary supplements in the United States and also provides personal genomics products and services. The unallocated corporate expenses mainly included professional fees associated with the public company.

The following table is a summary of segment information for three months ended March 31, 2026 and 2025 (amounts in thousands):

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Net revenues		
Diagnostic services	$ -	$ -
Consumer products	478	1,431
Consolidated net revenue	478	1,431
Cost of revenue		
Diagnostic services	-	232
Consumer products	311	673
Consolidated cost of revenue	311	905
Depreciation and amortization expense		
Diagnostic services	-	334
Consumer products	623	807
Total Depreciation and amortization expense	623	1,141
Operating and other expenses		
Diagnostic services	-	168
Consumer products	562	1,061
Unallocated corporate	2,962	2,834
Total operating and other expenses	3,524	4,063
Income (loss) from operations, before income taxes		
Diagnostic services	-	(734)
Consumer products	(1,018)	(1,110)
Unallocated corporate	(2,962)	(2,834)
Total loss from operations, before income taxes	(3,980)	(4,678)
Income tax expense	(1,374)	-
Total loss from operations, after income taxes	(5,354)	(4,678)
Net loss from continuing operations	$ (5,354)	$ (4,678)

The following table is a summary of segment information as of March 31, 2026 and December 31, 2025 (amounts in thousands):

	March 31, 2026	**December 31, 2025**
ASSETS		
Consumer products	$ 10,973	$ 11,614
Unallocated corporate	47,757	48,257
Total assets	$ 58,730	$ 59,871

Note 11 - Net Earnings (Loss) Per Share

Basic earnings (loss) per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or otherwise result in the issuance of common stock that shared in the earnings of the entity. Diluted earnings (loss) per share also utilizes the treasury stock method which prescribes a theoretical buy back of shares from the theoretical proceeds of all options outstanding during the period, and the if-converted method for convertible debt.

The following is a reconciliation of the weighted average number of common shares outstanding used in calculating basic and diluted net loss per share (in thousands):

	For the three months ended	
	March 31, 2026	**March 31, 2025**
Loss from continuing operations after income taxes	$ (5,354)	$ (4,678)
Income from discontinued operations, net of tax	-	8,644
Net (loss) income	**$ (5,354)**	**$ 3,966**
Weighted average common shares outstanding:		
Basic	12,317	3,523
Diluted	12,317	3,523
Net earnings (loss) per share:		
Loss from continuing operations, basic and diluted	$ (0.43)	$ (1.33)
Income from discontinued operations, basic and diluted	$ -	$ 2.45
Net loss (earnings) per share, basic and diluted	$ (0.43)	$ 1.13

The following table represents the number of securities excluded from the income per share computation as a result of their anti-dilutive effect (in thousands):

	For the three months ended	
Anti-dilutive securities	**March 31, 2026**	**March 31, 2025**
Common stock purchase warrants	997	74
Stock options	478	472
Convertible notes	10,981	-
Anti-dilutive securities	12,456	546

Note 12 - Related Parties

The Company's President of Nebula Genomics, Inc., is a related party to the Company's Chairman and Chief Executive Officer. For the three months ended March 31, 2026 and 2025, there were no payments made to the Executive Vice President outside compensation and benefits for the position held at the Company.

On February 18, 2025, the company announced that Stuart Hollenshead was appointed to serve as Chief Operating Officer of the Company, effective on February 17, 2025. Mr. Hollenshead resigned his COO position effective July 31, 2025 and resumed his prior role with the Company in the role as a marketing consultant. Mr. Hollenshead serves as CEO of 10PM Curfew. The Company received consulting services from 10PM Curfew on an ongoing basis. For the three months ended March 31, 2026 and 2024, the Company did not incurred any consulting services from 10pm Curfew. For the nine months ended September 30, 2025 and 2024, consulting services from 10PM Curfew totaled approximately $167,000 and one hundred sixty-five thousand, respectively. Amounts payable 10PM Curfew as of March 31, 2026 was zero. The Company continues to utilize 10PM Curfew for consulting services.

On June 22, 2025, the Company entered into a loan agreement with Ted Karkus, the Company's Chief Executive Officer and the Chairman of the Board of Directors, pursuant to which the Company issued a twelve-month non-convertible promissory note in the principal amount of $625,000. The Company also issued 500,000 unvested warrants in conjunction with the note agreement. See Note 6 for detail description regarding the CEO Loan and the CEO Warrants.

Note 13 - Discontinued Operations

On January 16, 2025, the Company entered into a Stock Purchase Agreement (the "Agreement") with JL Projects, Inc., a Delaware corporation ("JL Projects"), pursuant to which JL Projects purchased from the Company all of the right, title, and interest in and to all of the issued and outstanding shares of capital stock of Pharmaloz Manufacturing, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("PMI"), and Pharmaloz Real Estate Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("PREH"). The transaction closed concurrently with the execution of the Agreement on January 16, 2025.

As part of the transaction, JL Projects provided approximately $2 million in cash payments to the Company and extinguished approximately $10 million of the Company's debt. Additionally, JL Projects assumed (i) the existing $3.3 million mortgage on PMI's manufacturing facility, (ii) nearly $2 million in capital leases, and (iii) approximately $3 million in current and accrued payables, and paid down $200,000 on an existing loan from affiliates of JL Projects. The transaction also resulted in the cancellation of approximately $300,000 in accrued interest related to the retired debt. Furthermore, the Company avoided approximately $3 million of upcoming capital expenditures that JL Projects will now be responsible for. The transaction also transferred over $600,000 in employee annual overhead from the Company to PMI. As a result, the Company recognized a gain on sale of PMI and PREH of approximately $8.7 million for the three months ended March 31, 2025.

The Company has reported the results of the discontinued operations as a separate component of income below the income (loss) from continuing operations in each period presented.

Note 14 - Voluntary Bankruptcy Filing and Deconsolidation

On September 22, 2025 (the "Petition Date"), the Company's wholly-owned subsidiary, ProPhase Diagnostics, Inc., and two indirectly wholly-owned subsidiaries, ProPhase Diagnostics NY, Inc. and ProPhase Diagnostics NJ, Inc. (collectively the "PDX") filed for a Chapter 11 reorganization in United States Bankruptcy Court for the District of New Jersey (the "Chapter 11 case"). On September 30, 2025, the Court granted the motion for joint administration. During the Chapter 11 Case, the Company is deemed to no longer control PDX as its activities are subject to review and oversight by the Bankruptcy Court. Therefore, PDX was deconsolidated from the Company's condensed consolidated financial statements prospectively as of September 22, 2025.

Deconsolidation of Bankrupt Subsidiaries

In order to deconsolidate PDX, the carrying values of the assets and liabilities of PDX were removed from the Company's condensed consolidated balance sheet as of September 22, 2025, in accordance with ASC 810, Consolidation. The net impact with removing the assets and liabilities held at PDX resulted in the recognition of the investment in unconsolidated affiliates of $43.7 million, and a payable to unconsolidated affiliates of $27.7 million on the Company's condensed consolidated balance sheet as of September 30, 2025. Subsequent to the deconsolidation, the Company will account for the equity interest in PDX under the equity method of accounting as the Company is deemed to still have significant influence over PDX. For the three months ended March 31, 2026, the Company recognized approximately $225,000 loss from investment in PDX.

All post-deconsolidation activities between the Company and PDX are reported as third-party transactions recorded within the Company's Unaudited Condensed Consolidated Statement of Operations. Since the Petition Date, there were no material transactions between the Company and PDX.

Treatment of Intercompany Balances

The Company had total payables to PDX of approximately $27.6 million and $27.7 million as of March 31, 2026 and December 31, 2025, respectively.

Note 15 - Fair Value Measurements

The following table presents the fair value of the Company's financial liabilities that are measured at fair value on a recurring basis as of March 31, 2026 and December 31, 2025 (in thousands):

	As of March 31, 2026			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative liability	$ -	$ -	$ 490	$ 490

	As of December 31, 2025			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative liability	$ -	$ -	$ 50	$ 50

There were no transfers between Level 1, 2 or 3 during the three-month period ended March 31, 2026.

The following table presents changes in Level 3 liabilities measured at fair value for the three-month period ended March 31, 2026. Both observable and unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long- dated volatilities) inputs (in thousands).

	Derivative liability
Balance at January 1, 2026	$ 50
Issuance of convertible debt	308
Debt amendment	418
Redemptions	(372)
Change in fair value	86
Balance at March 31, 2026	$ 490

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in the Black-Scholes option pricing model and Monte-Carlo simulation measuring the Company's derivative liabilities that are categorized within Level 3 of the fair value hierarchy as of March 31, 2026 and December 31, 2025:

	As of March 31, 2026	**As of December 31, 2025**
Exercise price	$ 0.07	$ 0.76
Expected term (years)	0.6	0.6
Expected stock price volatility	154.5%	99.2%
Risk-free rate of interest	3.7%	3.6%
Expected dividend yield (per share)	0%	0%

Note 16 - Subsequent Events

On June 4, 2026, the Company's wholly-owned subsidiary, DNA Complete, Inc. ("DNA Complete"), entered into an agreement of sale of future receipts (the "Third 2026 Future Receipts Financing Agreement") with Legendary Funding Group, LLC ("Legendary"), by which Legendary purchased from DNA Complete its future accounts and contract rights arising from the sale of goods or rendition of services to DNA Complete's customers, equal to a specified percentage of future receipts. The purchase price was $60,000, which was paid to DNA Complete net of a $6,000 origination fee, resulting in net proceeds of $54,000.

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

The following discussion and analysis should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q ("Quarterly Report") and the audited financial statements and notes thereto as of and for the year ended December 31, 2025 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 1, 2026 (the "2025 Annual Report"). As used in this Quarterly Report, unless the context suggests otherwise, "we," "us," "our," or "ProPhase" refer to ProPhase Labs, Inc. and its subsidiaries, unless the context otherwise requires.

Forward-Looking Statements

This Quarterly Report (including any documents incorporated by reference herein) contains statements with respect to us which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to be covered by the ''safe harbor'' created by those sections. Forward-looking statements, which are based on certain assumptions and reflect our plans, estimates and beliefs, can generally be identified by the use of forward-looking terms such as "anticipates," "believes," "plan," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "predicts," "potential," "continue," "anticipates" or other comparable terms. These forward-looking statements include, but are not limited to, statements concerning future events, our future financial performance, business strategy, product development strategy, and plans and objectives of management for future operations. Our actual results could differ materially from those discussed in the forward-looking statements. This Quarterly Report may also contain forward-looking statements attributable to third parties relating to their estimates regarding the growth of our markets.

We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. We disclaim any obligation, except as specifically required by law and the rules of the SEC, to publicly update or revise any such statements to reflect any change in company expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

You should read this Quarterly Report and the documents that we incorporate by reference herein and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this Quarterly Report is accurate as of the date on the cover of this Quarterly Report only. Our business, financial condition, results of operations and prospects may change. We may not update these forward-looking statements, even though our situation may change in the future, unless we have obligations under the federal securities laws to update and disclose material developments related to previously disclosed information. We qualify all of the information presented in this prospectus, and particularly our forward-looking statements, by these cautionary statements.

You are cautioned that forward-looking statements are not guarantees of performance and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance, achievements or prospects to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. Many of these factors are beyond our ability to predict.

These factors should not be construed as exhaustive and you should also carefully consider the "Summary of Risk Factors" in our 2025 Annual Report and other Risk Factors and statements we make in other sections of this Quarterly Report, such as Part II. Item 1A. "Risk Factors" of this Quarterly Report, and in our 2025 Annual Report, such as Part I. Item 1A. "Risk Factors" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2025 Annual Report, all of which are incorporated herein by reference, as well as in other documents we file from time to time with the SEC that address additional risks that could cause our actual results to differ from those set forth in any forward-looking statements. Our forward-looking statements speak only as the date of this Quarterly Report. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law. Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements.

General

We are a next-generation biotech, genomics and consumer products company. We are also focused on licensing, developing and commercializing novel drugs, dietary supplements, compounds and diagnostics.

Our wholly-owned subsidiary, ProPhase Diagnostics, Inc., and two indirectly wholly-owned subsidiaries, ProPhase Diagnostics NY, Inc. and ProPhase Diagnostics NJ, Inc. (collectively, the "Debtors"), ceased providing COVID-19 diagnostic testing in May 2025. ProPhase Diagnostics NJ, Inc. continues to lease laboratory space in Old Bridge, New Jersey. On September 22, 2025, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On September 30, 2025, the Bankruptcy Court entered an order directing joint administration of the cases. On November 13, 2025, the Bankruptcy Court entered an order authorizing the Debtors to retain Crown Medical Collections, LLC as special counsel for the collection of accounts receivable arising from prior COVID-19 diagnostic testing services. The Debtors are pursuing reorganization under Chapter 11 with the objective of restoring solvency through (i) the orderly collection of accounts receivable owed to the Debtors, prosecuted by their court-appointed special counsel, and (ii) the operational reorganization of the Debtors' CLIA-certified laboratory infrastructure to support additional diagnostic and testing opportunities once the cases progress and resources permit. The Debtors' plan development is ongoing and any plan will be subject to Bankruptcy Court approval. As a result of the Chapter 11 filings, the Company is deemed to no longer control the Debtors and has deconsolidated the Debtors from its consolidated financial statements as of September 22, 2025. See Note 14.

In August 2021, we acquired Nebula Genomics, Inc., ("Nebula"), a privately owned personal genomics company, through our new wholly owned subsidiary, ProPhase Precision Medicine Inc. ("ProPhase Precision"). Nebula focuses on genomics sequencing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing can be used to help identify inherited disorders and tendencies, help predict disease risk, help identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. At this time, the Company is taking steps to grow its genomics businesses while also continuing to explore the potential sale of Nebula.

Our wholly-owned subsidiary, DNA Complete, Inc. ("DNA Complete"), which was formed on September 24, 2024, for the offering of whole genome sequencing and related services. DNA Complete focuses on genomics testing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing may help to identify inherited disorders and tendencies, predict disease risk, identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. DNA Complete currently offers DNA Complete's whole genome sequencing products direct-to-consumers online with plans to sell in food, drug and mass retail stores and to provide testing for universities conducting genomic research.

Our wholly owned subsidiary, ProPhase BioPharma, Inc. ("PBIO") was formed in June 2022, for the licensing, development and commercialization of novel drugs, dietary supplements and compounds. Licensed compounds currently include Equivir (an OTC, dietary supplement candidate) and Equivir G (prescription drug ("Rx") candidate), two broad-based anti-virals, and Linebacker LB-1 and LB-2, two small molecule proviral integration site for moloney murine leukemia virus ("PIM") kinase inhibitors. The Company also owns the exclusive rights to the BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening test and related intellectual property ("IP") assets.

In connection with the activities of PBIO, in January 2023, we acquired exclusive rights to the BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening test and related IP assets. The BE-Smart™ test is focused on the early detection of esophageal cancer, and is intended to provide health care providers and patients with data to help determine treatment options. The development of these novel drugs and compounds is highly dependent on how each performs during the testing and development stage, the demand for these product and services once entered into the marketplace, our marketing and service capabilities and our ability to comply with applicable regulatory requirements.

We also own a dietary supplements business under the TK Supplements® brand. The TK Supplements® product line includes Legendz XL®, a male sexual enhancement and Triple Edge XL®, an energy and stamina support product.

BE-Smart™ Esophageal Pre-Cancer Diagnostics Screening Test

In March 2023, in connection with the asset acquisition of Stella Diagnostics, Inc., we announced a collaboration for the continued development of our BE-Smart™ Esophageal Pre-Cancer diagnostic screening test. The BE-Smart™ test is designed to detect molecular biomarkers associated with Barrett's Esophagus and progression to esophageal adenocarcinoma.

On June 17, 2025, we announced the successful completion of a key validation study for the BE-Smart™ molecular diagnostic test. The study demonstrated a technical success rate greater than 95% using esophageal brush cytology samples, confirming the test's compatibility and reliability with both traditional forceps biopsy and less invasive brush biopsy techniques. Based on these results, we are continuing commercialization of BE-Smart™ as a Laboratory Developed Test ("LDT") and Research Use Only ("RUO") product, with steps towards commercialization planned for the first quarter of 2026 and broader insurance-backed commercialization targeted for the third quarter of 2026.These timelines are forward-looking statements and are subject to various risks and uncertainties, including, but not limited to, regulatory developments, payer coverage decisions, and market adoption rates.

On August 6, 2025, the United States Patent and Trademark Office issued U.S. Patent No. 12,379,378 B2, covering the BE-Smart™ Esophageal Pre-Cancer Diagnostic Screening Test. This newly issued patent further strengthens our intellectual property position for BE-Smart™ technology and supports our continued efforts to commercialize the test for early detection and risk stratification of Barrett's esophagus and related esophageal conditions.

We continue to own the full intellectual property portfolio supporting the BE-Smart™ test, including a foundational patent family covering molecular markers of esophageal disease progression, with issued patents and pending applications expected to provide protection until 2040. We remain positioned to capitalize on favorable regulatory and clinical practice trends supporting minimally invasive screening methods, although there can be no assurance that commercialization will occur within the anticipated timeframe or that adoption will meet our expectations.

Nebula Genomics and DNA Complete

Nebula focuses on genomics testing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing may help to identify inherited disorders and tendencies, help predict disease risk, help identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. We currently offer Nebula whole genome sequencing products direct-to-consumers online with plans to sell in food, drug and mass ("FDM") retail stores and to provide testing for universities conducting genomic research.

Nebula provides consumers access to affordable and secure whole genome sequencing. It also provides customers with access to over 300 personalized reports based on their genomic profile. These reports are created utilizing the latest scientific research and provide individual genetic commentary on a broad range of traits and characteristics. Customers can access their reports via Nebula's secure online portal. As new scientific discoveries are made, customers receive new reports, as well as regular updates to their existing reports, through Nebula's subscription model. In addition to the personalized reports, Nebula provides customers with access to a suite of exploration tools including a gene browser and a gene analysis tool. These tools allow customers to browse their data, search for genetic variants, and analyze their genes.

DNA Complete focuses on genomics testing technologies, a comprehensive method for analyzing entire genomes, including the genes and chromosomes in deoxyribonucleic acid ("DNA"). The data obtained from genomic sequencing may help to identify inherited disorders and tendencies, predict disease risk, identify expected drug response, and characterize genetic mutations, including those that drive cancer progression. We currently offer DNA Complete's whole genome sequencing products direct-to-consumers online with plans to sell in food, drug and mass ("FDM") retail stores and to provide testing for universities conducting genomic research. DNA Complete offers three tiers of DNA testing, Essential, Pro, and Elite, which differ in the amount of DNA analyzed (1x whole genome sequencing ("WGS"), 30x WGS, and 100x WGS, respectively), the level of accuracy, the number of reports per month that consumers would receive, and the total of personalized health reports included (more than 175 reports, more than 250 reports, and more than 350 reports, respectively). The DNA Complete tests include the first year of membership. The DNA Complete platform offers both ancestry and personalized health reports covering a number of health dispositions, such as longevity, mental health, cancer, and more. In addition, DNA Complete offers subscription services to ensure ongoing customer engagement by providing regular updates and new insights.

DNA Complete also offers DNA Expand, a platform that allows consumers to upload their DNA data from previous DNA tests obtained from other service providers to discover 50x more data points derived from over 35 million genetic variants, and to obtain in-depth health and wellness reports that are based on the latest scientific discoveries. DNA Expand's database was created from WGS tests that were obtained from 130 countries and are equivalent to roughly 150 million ancestry single nucleotide polymorphisms based tests.

DNA Complete is not rated by the Better Business Bureau and Nebula Genomics is accredited by the Better Business Bureau (BBB) with a current "B" rating in the DNA Testing / Genetic Testing category. A number of customer inquiries and complaints relating to order fulfillment, billing, and access to results have been reported. Due to a change in sequencing lab, the companies fell behind in sequencing. A new lab has been engaged and the delayed results are in the process of being resolved. DNA Complete continues to strengthen its operations, data security, and customer-service processes to enhance reliability and consumer confidence as it expands its presence in the growing personal genomics market.

In October 2024, a putative class action lawsuit, *Portillo v. Nebula Genomics, Inc.*, was filed in the U.S. District Court for the Northern District of Illinois under Illinois's Genetic Information Privacy Act ("GIPA") alleging that Nebula improperly shared customers' genetic information with third parties without written consent. The action named Nebula along with Meta Platforms, Google and Microsoft. The dispute was later transferred to the U.S. District Court for the District of Massachusetts in accordance with Nebula's Terms of Use, which mandated that claims be brought in Massachusetts. The complaint remains at the pleading stage. In addition to the motion to change venue, Nebula filed a motion to dismiss. While the allegations raise reputational and legal risks, no judgment or settlement has been entered and potential liability is not reasonably estimable at this time. Accordingly, management does not consider this litigation to be material to the consolidated financial statements as of the date of this prospectus.

ProPhase BioPharma

We formed PBIO in June 2022 to assist in the licensing, development and commercialization of novel drugs, dietary supplements and compounds. Licensed compounds under development currently include Equivir (a dietary supplement candidate) and Equivir G (prescription drug ("Rx") candidate), and two broad-based candidates. We also own the exclusive rights to the BE-Smart Esophageal Pre-Cancer Diagnostic Screening test, which is in development as described above, and related intellectual property ("IP") assets.

Equivir (dietary supplement candidate) and Equivir G (Rx candidate)

We have exclusive worldwide rights to develop and commercialize Equivir (a dietary supplement candidate) and Equivir G (a Rx drug candidate) pursuant to a license agreement with Global BioLife, Inc. ("Global BioLife").

Equivir is a blend of polyphenols, which are substances found in many nuts, vegetables and berries. The composition is projected to come in capsule form and be taken daily like a multivitamin. The composition is believed to support the human body's immune function, and improve the quality of lives for users. We plan to commercialize Equivir as a dietary supplement, leveraging our distribution in over 40,000 FDM retail stores and online direct to consumers.

In March 2023, we commenced patient enrollment in a randomized, placebo-controlled clinical trial of Equivir to evaluate its effect in supporting immune system functions. Vedic Lifesciences, a leading clinical research organization, was contracted to run the multi-arm trial. Vedic produced interim results in February of 2024 which showed enough data to continue the trial to completion.

TK Supplements

Our TK Supplements® product line is dedicated to supporting better health, energy and sexual vitality. Each of our herbal supplements is researched to determine the optimum blend of ingredients to ensure our customers receive premium quality products. To achieve this, we formulate with the highest quality ingredients derived from nature and ingredients enhanced by science. Our TK Supplements® product line includes Legendz XL®, a sexual health formula product intended for men, and Triple Edge XL®, an energy and stamina support product.

ProPhase Diagnostics

Our wholly-owned subsidiary, ProPhase Diagnostics, Inc., and two indirectly wholly-owned subsidiaries, ProPhase Diagnostics NY, Inc. and ProPhase Diagnostics NJ, Inc., ceased providing COVID-19 diagnostic testing in May 2025. ProPhase Diagnostics NJ, Inc. still leases the laboratory space in Old Bridge, New Jersey. The labs were forced to cease diagnostic testing when the medical insurance carriers ceased paying COVID-19 diagnostic testing claims. On September 22, 2025, the three lab entities filed for a Chapter 11 reorganization in United States Bankruptcy Court for the District of New Jersey. On September 30, 2025, the Court granted the motion for joint administration. The bankruptcy filing is the next step in the Company's legal advisor, Crown Medical Collections, strategic initiative to collect what the Company believes could be tens of millions of dollars in unpaid insurance claims. The Company believes one objective of the bankruptcy filing is to streamline and accelerate recovery of the unpaid insurance claims the Company believes were lawfully owed for approved and completed testing services.

Results of Continuing Operations

Three Months Ended March 31, 2026 as Compared to the Three Months Ended March 31, 2025

For the three months ended March 31, 2026, net revenue was $0.5 million as compared to $1.4 million for the three months ended March 31, 2025. The decrease in revenues was mainly attributable to a decrease in revenues from the sale of supplements. The Company did not generate any revenues from diagnostic services for the three months ended March 31, 2026 and 2025, respectively.

Cost of revenues for the three months ended March 31, 2026 were $0.3 million, which was mainly related to our consumer products. Cost of revenues for the three months ended March 31, 2025 were $0.9 million, comprised of $0.2 million for diagnostic services and $0.7 million for consumer products.

We realized a gross margin of $0.2 million and $0.5 million for the three months ended March 31, 2026 and 2025, respectively. The decrease of $0.3 million was a result of consumer products with different margin product mix. For the three months ended March 31, 2026 and 2025, we realized an overall gross margin of 34.9% and 36.8%, respectively. Gross margin for diagnostic services was zero or not applicable due to no revenue in the 2026 and 2025 comparable periods, respectively. Gross margin for consumer products have historically been influenced by fluctuations in quarter-to-quarter and year-to-year production volume, fixed production costs and related overhead absorption, raw ingredient costs, inventory mark to market write-downs and timing of shipments to customers.

General and administration expenses for the three months ended March 31, 2026 were $2.8 million as compared to $4.1 million for the three months ended March 31, 2025. The decrease in general and administration expenses of $1.3 million for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025 was principally related to a decrease in personnel expenses, overhead costs and professional fees.

Research and development costs for the three months ended March 31, 2026 were zero as compared to $97,000 for the three months ended March 31, 2025. The decrease in research and development costs of $97,000 for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025 was principally due to decreased activities related to product research and field testing as a result of refined focus and efforts.

Interest expense for the three months ended March 31, 2026 was approximately $651,000 as compared to $539,000 million for the three months ended March 31, 2025. The increase in interest expense of $112,000 for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025 was principally due to the increased balance of our outstanding debt that bears interest.

As a result of the effects described above, net loss from the continuing operations for the three months ended March 31, 2026 was $5.4 million, or $(0.43) per share, as compared $4.7 million, or $(1.33) per share, for the three months ended March 31, 2025. Diluted (loss) earnings per share related to the continuing operations for the three months ended March 31, 2026 and 2025 were $(0.14) per share and $1.33 per share, respectively.

Non-GAAP Financial Measures and Reconciliation

In an effort to provide investors with additional information regarding our results of operations as determined by accounting principles generally accepted in the United States of America (“GAAP”), we disclose certain non-GAAP financial measures. The primary non-GAAP financial measures we disclose are EBITDA and Adjusted EBITDA.

We define “EBITDA” as net income (loss) before net interest expense, income taxes, depreciation and amortization. Adjusted EBITDA further adjusts EBITDA by excluding acquisition costs, other non-cash items, and other unusual or non-recurring charges (as described in the table below).

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same names and may differ from non-GAAP financial measures with the same or similar names that are used by other companies. We compute non-GAAP financial measures using the same consistent method from quarter to quarter and year to year. We may consider whether other significant items that arise in the future should be excluded from the non-GAAP financial measures.

We use EBITDA and Adjusted EBITDA internally to evaluate and manage the Company's operations because we believe they provide useful supplemental information regarding the Company's ongoing economic performance. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our operating results primarily because they exclude amounts that are not considered part of ongoing operating results when planning and forecasting and when assessing the performance of the organization. In addition, we believe that non-GAAP financial information is used by analysts and others in the investment community to analyze our historical results and in providing estimates of future performance and that failure to report these non-GAAP measures could result in confusion among analysts and others and create a misplaced perception that our results have underperformed or exceeded expectations.

The following table sets forth the reconciliations of EBITDA and Adjusted EBITDA excluding other costs to the most comparable GAAP financial measures (in thousands):

	For the three months ended	
	March 31, 2026	**March 31, 2025**
GAAP loss from continuing operations [1]	$ (5,354)	$ (4,678)
Interest, net	651	539
Income tax benefit	1,374	-
Depreciation and amortization	962	1,482
EBITDA	(2,367)	(2,657)
Share-based compensation expense	390	521
Non-cash rent expense [2]	355	522
Adjusted EBITDA from continuing operations	$ (1,621)	$ (1,614)

(1) We believe that net loss from continuing operations is the financial measure calculated and presented in accordance with GAAP that is most directly comparable to EBITDA and Adjusted EBITDA. EBITDA and Adjusted EBITDA measure the Company's operating performance without regard to certain expenses. EBITDA and Adjusted EBITDA are not presentations made in accordance with GAAP and the Company's computation of EBITDA and Adjusted EBITDA may vary from others in the industry. EBITDA and Adjusted EBITDA have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under GAAP.

(2) The non-cash portion of rent, which reflects the extent to which our GAAP rent expense recognized exceeds (or is less than) our cash rent payments. For newer leases, our rent expense recognized typically exceeds our cash rent payments, while for more mature leases, rent expense recognized is typically less than our cash rent payments.

Going Concern

As of March 31, 2026 and through the date of this filing, the Company has experienced significant liquidity constraints and operating challenges. As of March 31, 2026, the Company had cash on hand of approximately $31,000. The Company has also experienced a significant decline in revenue from its diagnostic services business, has ceased diagnostic testing operations as of the fourth quarter of 2024, and no longer has access to certain historical sources of capital, including at-the-market offerings or equity line of credit facilities. In addition, the Company's common stock is no longer listed on The Nasdaq Capital Market and is currently quoted on the OTC Markets, which may further limit access to capital.

Furthermore, on September 22, 2025, certain of the Company's diagnostic subsidiaries (the "Debtors") filed for relief under Chapter 11 of the United States Bankruptcy Code. The Debtors are pursuing reorganization under Chapter 11, with the objectives of (i) the orderly collection of accounts receivable through their court-appointed special counsel and (ii) the operational reorganization of the Debtors' CLIA-certified laboratory infrastructure to support additional diagnostic and testing opportunities as resources permit. The Debtors' plan of reorganization is under development and any plan will be subject to Bankruptcy Court approval. The outcome, timing, and amount of any recovery from the receivables collection program and the operational reorganization are uncertain and subject to factors outside the Company's control, including Bankruptcy Court approval, payor responses to claims, the development and confirmation of a plan, and the priority scheme of the Bankruptcy Code.

These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are issued.

The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from operations, obtain additional financing, and/or execute strategic transactions. Management is actively evaluating various alternatives to improve liquidity and support ongoing operations, including, but not limited to, raising additional capital through equity or debt financings, pursuing strategic partnerships, and reducing operating expenses. However, there can be no assurance that such plans will be successfully implemented or that sufficient funding will be available on terms acceptable to the Company, if at all.

The condensed consolidated financial statements included in this quarterly report has been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity and Capital Resources

Our aggregate cash and cash equivalents as of March 31, 2026 were $31,000 as compared to $90,000 at December 31, 2025. Our working capital deficit was $53.0 million and $49.9 million as of March 31, 2026 and December 31, 2025, respectively. The decrease of approximately $59,000 in our cash and cash equivalents for the three months ended March 31, 2026 was principally due to $748,000 cash used in operating activities and repayment of note payable of $44,000, and offset by proceeds from issuance of common stock, notes payable and convertible notes of $721,000.

To date the principal sources of capital to fund our operations have been from diagnostic services, genomics sequencing, product sales, net proceeds from the offering of equity securities, and issuances of promissory notes. Based on management's current business plans, the Company estimates it will have enough cash and liquidity to finance its operating requirements for at least 12 months from the date of filing these unaudited condensed consolidated financial statements. However, due to the nature of early-stage ventures and accounts receivables collections, there are inherent uncertainties associated with managements' business plan and cash flow projections, particularly if the Company is unable to grow its business lines, including replacing the revenues from our lab diagnostic services or tests with new business lines, or collect on its accounts receivables in a timely manner or at all. If we were to experience a cash shortfall, we believe our access to existing and other financing sources, including our at-the-market facility, and the established relationships with our investment banks will enable us to continue to meet our obligations and fund ongoing operations.

We may also use our cash to explore and/or acquire new product technologies, applications, product line extensions, new contract manufacturing applications and other new product opportunities. In the event that our available cash is insufficient to support such initiatives, we may need to incur indebtedness or issue common stock or other securities to finance our plans for growth. Volatility in the credit markets and the liquidity of major financial institutions, including as a result of inflation and/or the wars in Ukraine and the Gaza Strip and measures taken in response thereto, may have an adverse impact on our ability to fund our business strategy through future borrowings, under either existing or newly created instruments in the public or private markets on terms that we believe to be reasonable, if at all.

We anticipate that we will continue to incur losses for foreseeable future. We expect to continue to incur research and development costs and general and administrative expenses, as well as expenses related to potential commercialization of our product candidates, consistent with costs associated with research and development at companies of our size and stage of development, and, as a result, we will need additional capital to fund our operations, which we may raise through public or private equity or debt financings, strategic collaborations, or other sources.

Contractual Obligation and Commitments

At-the-Market Sales Agreement with WestPark Capital, Inc.

On October 9, 2025, ProPhase Labs, Inc. (the "Company") entered into an At-the-Market Sales Agreement (the "Sales Agreement") with WestPark Capital, Inc. ("Agent"), pursuant to which the Company may offer and sell shares of its common stock, par value $0.0005 per share ("Common Stock") from time to time through the Agent as the Company's sales agent. The Agent is entitled to compensation of 3.0% of the gross proceeds from the sales of any Shares pursuant to the Sales Agreement and will be reimbursed for certain expenses.

The Sales Agreement contains customary representations, warranties, and covenants of the Company and the Agent, indemnification and contribution provisions, and conditions precedent to the sale of the Shares pursuant to the Sales Agreement. The Company may terminate the Sales Agreement at any time upon notice to the Agent.

The Company is not obligated to sell any Shares under the Sales Agreement and may at any time suspend sales pursuant to the Sales Agreement upon notice to the Agent and subject to the terms of the Sales Agreement. The Sales Agreement may be terminated by either party at any time upon notice to the other party. The Company and the Agent have made customary representations, warranties and covenants in the Sales Agreement concerning the Company, the Registration Statement and the offering of the Shares.

Strategic Advisory and Private Placement Agreement with ThinkEquity LLC

On September 12, 2025, ProPhase Labs, Inc. (the "Company") entered into a Strategic Advisory and Private Placement Agreement (the "Agreement") with ThinkEquity LLC ("ThinkEquity"), pursuant to which ThinkEquity will serve as the exclusive strategic advisor, placement agent and investment banker (the "Services") to the Company in connection with the Company's digital asset treasury strategy and a proposed private placement of approximately $6,000,000 of the Company's securities (the "Offering") to be conducted on a best efforts basis. The terms of the Offering and the Securities shall be mutually agreed upon by the Company and the investors, and nothing in the Agreement implies that ThinkEquity would have the power or authority to bind the Company, or obligates the Company to issue any Securities or complete the Offering.

As compensation for the Services, the Company agreed to pay ThinkEquity a cash placement agent fee (the "Placement Agent's Fee") equal to 8% of the aggregate purchase price paid by each purchaser of Securities placed in the Offering, payable at the closing of the Offering (the "Closing") from the gross proceeds. As additional compensation for the Services, the Company will issue to ThinkEquity or its designees: (i) warrants (the "PA Warrants") to purchase shares of the Company's common stock ("Shares") equal to 8% of the number of Shares placed in the Offering, plus any Shares underlying any convertible Securities placed in the Offering to such purchasers; and (ii) additional warrants (the "Advisory Warrants") consisting of 1,250,000 warrants upon the Closing, an additional 1,250,000 warrants upon the Company accumulating $50,000,000 in crypto, and an additional 1,000,000 warrants upon the Company accumulating $100,000,000 in crypto. All warrants will have a five-year exercise period and include registration rights equivalent to those granted with respect to the Securities.

The Agreement also provides for the Company's engagement of ThinkEquity to perform certain advisory and placement services in connection with the Offering, establishes the parties' respective obligations and limitations regarding authority, and grants ThinkEquity the right to appoint one member to the Company's Board of Directors (the "Board Designee"), upon the Company's accumulating $50,000,000 of crypto.

Equivir License Agreement

Under the terms of our Equivir License Agreement with Global BioLife for the worldwide exclusive right and license to Equivir and Equivir G, we are required to pay to Global BioLife a royalty of 5.5% after the date of first commercial sale and during the royalty term. In the event that no valid claim of Equivir Licensed Patents cover a Equivir Licensed Product in a particular jurisdiction, the royalty rate for such Equivir Licensed Product will be reduced by 50%.

Linebacker License Agreement

Under the terms of our License Agreement entered into by and between PBIO and Global BioLife, Inc. ("Global BioLife") on July 19, 2022 (the "Linebacker License Agreement") for the worldwide exclusive right and license to Linebacker (LB-1 and LB-2), we must pay Global BioLife $900,000 following the achievement of a first Phase 3 study which may be required by the United States Food and Drug Administration for the first product comprising or containing any compound covered by certain patents identified in the Linebacker License Agreement (a "Linebacker Licensed Product") and an additional $1 million upon the receipt of regulatory approval of a New Drug Application for the first Linebacker Licensed Product. During the term of the Linebacker License Agreement, we are also required to pay to Global BioLife 3% royalties on Net Revenue (as defined in the Linebacker License Agreement) of each Linebacker Licensed Product, but no less than the minimum royalty of $250,000 of Net Revenue per year minus any royalty payments for any required third party licenses.

Stella Asset Purchase Agreement

On December 15, 2022, we entered into an Asset Purchase Agreement (the "Stella Purchase Agreement") with Stella Diagnostics Inc. ("Stella") and Stella DX, LLC ("Stella DX" and, together with Stella, the "Stella Sellers"), pursuant to which, on January 3, 2023, we purchased all of the assets, rights and interests of the Stella Sellers and their affiliates pertaining to the Stella Sellers' BE-Smart Esophageal Pre-Cancer diagnostic screening test and certain clinical assets, including all intellectual property rights (the "Stella Purchased Assets"). As consideration for the Stella Purchased Assets, we (i) paid to the Stella Sellers $3.5 million in cash, minus (a) the Secured Note Amount of $0.5 million, (b) the Liability Payoff Amount of $0.4 million and (c) the Promissory Note Payoff Amounts of $0.4 million (each as defined in the Stella Purchase Agreement) in 2022, and (ii) issued to Stella DX 100,000 shares of our common stock.

We are required to pay to the Stella Sellers for each of the seven calendar years (each, an "Annual Period") during the seven year period commencing on the first day of the calendar year following the date of the Commercialization Event (as defined in the Stella Purchase Agreement), a non-refundable, non-creditable royalty of 5% of the Adjusted Gross Margin (as defined in the Stella Purchase Agreement) for such Annual Period.

In addition to the consideration paid at closing, the Company will issue shares of common stock valued at $2.0 million (the "Milestone Stock") to the Stella Sellers upon a Commercialization Event (as defined in the Stella Purchase Agreement). The Milestone Stock was recorded at closing as a non-current liability at its fair value of $2.0 million. Also, the Company is required to pay to the Stella Sellers for each of the seven calendar years during the seven years period commencing on the first day of the calendar year following the date of the Commercialization Event, a non-refundable, non-creditable royalty of 5% of the Adjusted Gross Margin for such Annual Period. As of March 31, 2026, the Commercialization Event had not occurred.

Contractual Obligations under Debt Arrangement

The Company has contractual obligations under various debt arrangement. See Note 5 in our financial statement included in this Quarterly Report for more information relating to our outstanding debt obligations.

HRSA Funding

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted, providing for reimbursement to healthcare providers for COVID-19 tests provided to uninsured individuals, subject to continued available funding. There were no diagnostic services revenue for the three months ended March 31, 2026 and 2025, respectively, that was generated from this program for the uninsured. On March 22, 2022, the Health Resources & Services Administration's uninsured program stopped accepting claims for COVID-19 testing and treatment due to lack of sufficient funds. Despite requests from the Acting Director of the Office of Management and Budget and the White House Coordinator for COVID-19 Response for additional emergency funding for the uninsured program, additional emergency funding were not allocated to the Health Resources & Services Administration's uninsured program.

On January 30, 2023, the Administration announced that effective May 11, 2023, the federal Public Health Emergency would expire related to the COVID-19 pandemic. This expiration changes regulatory guidelines around COVID-19 testing including billing codes and reimbursement rates of in and out of network laboratories. As a result of the Public Health Emergency ending and the significant decrease in demand of COVID-19 testing, we have not performed any diagnostic testing services during the three months ended March 31, 2026.

At-the-Market Facility

On December 28, 2021, we entered into a Sales Agreement (the "Sales Agreement") with ThinkEquity LLC (the "Sales Agent"), pursuant to which we may offer and sell, from time to time through the Sales Agent, shares of our common stock having an aggregate offering price of up to $100,000,000, subject to the terms and conditions of the Sales Agreement. We are not obligated to make any sales of shares under the Sales Agreement.

We will pay the Sales Agent a fixed commission rate of 2.0% of the aggregate gross proceeds from the sale of any shares pursuant to the Sales Agreement and have agreed to provide the Sales Agent with customary indemnification and contribution rights. We also agreed to reimburse the actual out-of-pocket accountable expenses of the Sales Agent up to $60,000 (of which a $25,000 advance was paid on December 7, 2021), which amount includes the fees and expenses of legal counsel to the Sales Agent up to $50,000, and to pay the costs associated with bound volumes of the public offering materials as well as commemorative mementos and lucite tombstones, in an amount not to exceed $3,000.

In April 2024, the Company sold 103,350 shares of common stock pursuant to the Sales Agreement. The Company received cash proceeds of $4.6 million, which is net of $94,000 offering cost incurred by the Sales Agent.

On November 12, 2024 ("Closing Date"), the Company closed on an underwritten firm commitment public offering under the at-the-market facility, whereby the Company sold 479,500 shares of common stock, including 62,500 shares of common stock sold upon full exercise of the underwriters' option to purchase additional shares (the "Offering"). Each share of common stock was sold at a public offering price of $7.20 per share for aggregate gross proceeds of $3.5 million. The Company received net cash proceeds of $3.0 million, which is net of $0.5 million offering cost. Upon closing of the Offering, the Company issued the Representative warrants (the "Representative's Warrants") as compensation to purchase up to 23,975 shares of common stock, which is equal to 5.0% of the aggregate number of shares of common stock sold in the Offering. The Representative's Warrants will be exercisable at a per share exercise price of $9.00.

Impact of Inflation

We are subject to normal inflationary trends and anticipate that any increased costs for our retail operations would be passed on to our customers; however, any increased costs related to diagnostic services would be absorbed by the Company. Inflation could have a material effect on our business in the future.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a discussion of our critical accounting estimates, see the Management's Discussion and Analysis of the Results of Operations in the Company's Annual Report on Form 10-K, which was filed with the United States Securities and Exchange Commission ("SEC") on June 1, 2026 (the "2025 Form 10-K"). There were no material changes in our critical accounting estimates or accounting policies from December 31, 2025.

Recent Accounting Pronouncements

See Note 2, "Significant Accounting Policies", to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Like virtually all commercial enterprises, we can be exposed to the risk ("market risk") that the cash flows to be received or paid relating to certain financial instruments could change as a result of changes in interest rate, exchange rates, commodity prices, equity prices and other market changes.

Our operations are not subject to risks of material foreign currency fluctuations, nor do we use derivative financial instruments in our investment practices. We place our marketable investments in instruments that meet high credit quality standards. We do not expect material losses with respect to our investment portfolio or excessive exposure to market risks associated with interest rates. The impact on our results of one percentage point change in short-term interest rates would not have a material impact on our future earnings, fair value, or cash flows related to investments in cash equivalents or interest-earning marketable securities.

Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance including the collection of accounts receivables, notes receivable, realization of inventory and recoverability of assets. In addition, our business and financial performance may be adversely affected by current and future economic conditions, including a reduction in the availability of credit, financial market volatility and recession.

There have been no material changes to our market risk exposures since December 31, 2025.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial and accounting officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2026. This evaluation was carried out under the supervision and with the participation of our principal executive officer and principal financial and accounting officer. Based on that review, our management, including our principal executive officer and principal financial and accounting officer, concluded that our disclosure controls and procedures were ineffective at the reasonable assurance level as of March 31, 2026.

Changes in Internal Control Over Financial Reporting

There have been no change in our internal control over financial reporting identified in connection with evaluation required by paragraph (d) of Securities Exchange Act Rule 13a-15 or Rule 15d-15 that occurred in the quarter ended March 31, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of business. Other than as described below, we are not presently a party to any material litigation.

A qui tam complaint was filed under seal in the United States District Court alleging violations of the federal False Claims Act relating to certain laboratory testing activities of the Company's diagnostic subsidiaries. Under the False Claims Act, the United States Department of Justice and relevant state authorities are afforded an opportunity to investigate the allegations and determine whether to intervene and take over prosecution of the action. After reviewing the allegations and conducting their investigation, the United States Department of Justice and the relevant state authorities declined to intervene in the action. The matter was thereafter unsealed and the case remains pending. The named defendant diagnostic subsidiaries are the same entities that, on September 22, 2025, filed voluntary petitions under Chapter 11 of the Bankruptcy Code (see Note 14).

The Company believes the allegations are without merit and intends to defend the matter vigorously. The Company is not aware of any ongoing government investigation related to the allegations described above. The Company and the Debtors believe the allegations are without merit and intend to defend the matter vigorously. The Company is not aware of any ongoing government investigation relating to the allegations described above.

The Company is a party to a pending arbitration proceeding commenced by Turnpoint Capital, LLC ("Turnpoint") relating to a senior secured convertible note issued in July 2025. Turnpoint alleges certain events of default under the note and seeks monetary damages and other relief. The Company disputes the allegations, believes it has substantial defenses and affirmative claims relating to the matter, and intends to vigorously defend and prosecute the proceeding. The arbitration is in its early stages, and the Company cannot currently estimate the outcome, timing, or amount of any potential loss or recovery associated with the matter.

First Financial Holdings LLC filed a civil complaint in New York State court against ProPhase Labs, Inc. relating to certain equipment lease and financing arrangements associated with the Company's former Pharmaloz business. The Company disputes the claims asserted in the complaint and has moved to dismiss the action based on an arbitration provision contained in the applicable agreements. The Company believes it has substantial defenses and intends to vigorously defend the matter.

Item 1A. Risk Factors.

Factors that could cause our actual results to differ materially from those in this Quarterly Report are any of the risks described in our Annual Report on Form 10-K filed with the SEC on June 1, 2026. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K filed with the SEC on June 1, 2026, except as otherwise disclosed below. However, we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. As of March 31, 2026, we had approximately $5.4 million of outstanding indebtedness, net of discounts and approximately $31,000 in cash and cash equivalents. Our business may not generate cash flow from operations in the future sufficient to service our debt obligations and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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

Our common stock is listed on the Nasdaq Capital Market. There are a number of continued listing requirements that we must satisfy in order to maintain our listing on The Nasdaq Capital Market. If we fail to maintain compliance with all applicable continued listing requirements for The Nasdaq Capital Market and Nasdaq determines to delist our common stock, the delisting could adversely affect the share price and market liquidity of our common stock, our ability to obtain financing and /or our ability to repay debt and fund our operations.

On December 26, 2024, we received a letter from the Listing Qualifications Staff (the "Staff") of Nasdaq indicating that the bid price for our common stock for the last 30 consecutive business days had closed below the minimum $1.00 per share required for continued listing under Nasdaq Listing Rule 5550(a)(2). The Company had an initial 180-day compliance period, during which it did not achieve compliance with the Minimum Bid Price Requirement.

On May 19, 2025, the Company submitted a request to the Nasdaq for an 180-day extension to regain compliance with the Minimum Bid Price Requirement pursuant to Nasdaq Listing Rule 5810(c)(3)(A)(ii). On June 25, 2025, the Company received a letter from the Nasdaq Staff advising that the Company had been granted a 180-day extension to December 22, 2025 to regain compliance with the Minimum Bid Price Requirement, in accordance with Nasdaq Listing Rule 5810(c)(3)(A).

Pursuant to the Extension Notice, the Company was granted an additional 180 calendar day period, until December 22, 2025, to regain compliance with the Minimum Bid Price Requirement. To regain compliance, the Company's common stocks must have a closing bid price of at least US$1.00 per share for a minimum of 10 consecutive business days.

As of the date hereof, the Company has not regained compliance with the Bid Price Requirement. The Company intends to monitor the closing bid price of its common shares between now and December 22, 2025, and is considering its options to regain compliance with the Bid Price Requirement. However, there can be no assurance that we will be able to regain compliance.

The Company is going to call a Special Shareholder Meeting to obtain approval of a proposal to enable the Company to effect a reverse stock split. At this time, the Company has not determined whether or not the Company is going to do a reverse stock split but prefers to have the option to do so. The crypto treasury strategy initiative may or may not affect the decision to do a reverse stock split.

If our common stock is delisted by Nasdaq, our common stock may be eligible to trade on an over-the-counter quotation system, where an investor may find it more difficult to sell our stock or obtain accurate quotations as to the market value of our common stock. We cannot assure you that our common stock, if delisted from the Nasdaq, will be listed on another national securities exchange or quoted on an over-the counter quotation system

If we do not regain compliance with the Bid Price Requirement by December 22, 2025, the Staff will provide a Staff Delisting Determination, written notification to us that shares of our Common Stock will be subject to delisting. At that time, we may appeal the Staff's delisting determination to a Nasdaq Hearings Panel. There can be no assurance that any appeal to the Nasdaq Hearing Panel will be successful or that we will otherwise maintain compliance with any of the other Nasdaq listing requirements.

Risks Related to Legal Proceedings

From time to time, we are, and may in the future be, subject to class action or other litigation arising in the ordinary course of our business. One of our subsidiaries, Nebula Genomics, Inc., is currently involved in a class action lawsuit that, based on our review of the facts and circumstances, we believe is not material to our financial condition or operations. However, litigation is inherently unpredictable, and the outcome of any such action is subject to significant uncertainties. An adverse judgment, settlement, or protracted legal proceedings could result in substantial costs, require significant management attention, or negatively impact our reputation, regardless of the ultimate outcome or our current assessment of materiality. There is no assurance that this matter or other litigation that may arise will not have a material adverse effect on our business, results of operations, or financial condition in the future.

In October 2024, a putative class action lawsuit, *Portillo v. Nebula Genomics, Inc.*, was filed in the U.S. District Court for the Northern District of Illinois under Illinois's Genetic Information Privacy Act ("GIPA") alleging that Nebula improperly shared customers' genetic information with third parties without written consent. The action named Nebula along with Meta Platforms, Google and Microsoft. The dispute was later transferred to the U.S. District Court for the District of Massachusetts in accordance with Nebula's Terms of Use, which mandated that claims be brought in Massachusetts. The complaint remains at the pleading stage. In addition to the motion to change venue, Nebula filed a motion to dismiss. While the allegations raise reputational and legal risks, no judgment or settlement has been entered and potential liability is not reasonably estimable at this time. Accordingly, management does not consider this litigation to be material to the consolidated financial statements as of the date of this prospectus.

Risks Related to Consumer Complaints

DNA Complete is not rated by the Better Business Bureau and Nebula Genomics is accredited by the Better Business Bureau (BBB) with a current "B" rating in the DNA Testing / Genetic Testing category. A number of customer inquiries and complaints relating to order fulfillment, billing, and access to results have been reported. Due to a change in sequencing lab, the companies fell behind in sequencing. A new lab has been engaged and the delayed results are in the process of being resolved. DNA Complete continues to strengthen its operations, data security, and customer-service processes to enhance reliability and consumer confidence as it expands its presence in the growing personal genomics market. Although we believe most such matters have been addressed or resolved, any recurrence of consumer complaints, deterioration of our BBB rating, or negative media or social-media coverage could harm public perception of our products, reduce demand for our genetic-testing services, and expose us to regulatory scrutiny, increased customer-service costs, or potential liability. Because our genetic-testing activities involve health-related data and consumer trust is a significant factor in purchasing decisions, reputational damage in this segment could materially and adversely affect our brand value, business operations, financial condition, and results of operations.

Risks Related to Our Potential Involvement with a Crypto Treasury Strategy

Our potential involvement with cryptocurrencies and digital assets could expose us to substantial volatility and financial losses.

If we allocate a portion of our corporate treasury to cryptocurrencies or related digital assets, we will be subject to extreme price volatility and potential illiquidity in the digital asset markets. The trading prices of cryptocurrencies have historically experienced wide fluctuations in response to global economic conditions, market sentiment, regulatory developments, technology changes, and other factors beyond our control. As a result, the value of any digital assets we may hold could decline rapidly and unpredictably, and we could incur significant losses. There can be no assurance that the value of such assets will recover after any downturn.

The regulatory environment for cryptocurrencies remains uncertain and is developing and could increase our compliance costs or restrict our activities.

The regulatory framework governing cryptocurrencies and digital assets is rapidly evolving and subject to significant uncertainty at the federal, state, and international levels. Future legislative, regulatory, or policy changes may adversely affect our ability to acquire, hold, safeguard, or use cryptocurrencies. These changes could impose new or heightened compliance, reporting, accounting, or tax obligations, and we may face enforcement actions, examinations, or investigations relating to our digital asset activities. Any such developments could result in significant costs, consume management resources, and adversely affect our operations and financial performance.

Digital asset holdings may be subject to loss, theft, or compromise due to cybersecurity incidents or operational failures.

Cryptocurrencies and other digital assets are susceptible to risks of hacking, theft, fraud, and technological vulnerabilities. Whether held directly or through third-party custodians, such assets may be irretrievably lost in the event of a cyber-attack, security breach, systems failure, or human error. Unlike traditional financial assets, digital assets are often not insured, and remedies may be limited or unavailable. A loss of some or all of our digital assets could materially harm our financial condition and damage our reputation.

Managing a digital asset treasury strategy may divert resources and require specialized expertise.

Participation in digital asset markets may require technical capabilities, compliance procedures, and risk management practices that differ from our core operations. Implementing and overseeing such a strategy could divert management's attention from other priorities and require the engagement of personnel or third-party service providers with specialized knowledge. If we are unable to effectively manage these demands, we could be exposed to operational inefficiencies, financial risks, and other adverse consequences.

Our stock price may experience increased volatility as a result of crypto-related activities.

Public companies that engage in digital asset activities have often experienced greater stock price volatility unrelated to their underlying business performance. Investor perceptions, positive or negative, regarding our involvement with cryptocurrencies could contribute to significant fluctuations in the trading price of our common stock. Even limited or preliminary crypto-related initiatives could amplify volatility, potentially leading to declines in market value and shareholder returns.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

During the quarter ended March 31, 2026, none of our directors or officers (as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended) adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q. Exhibits identified below as previously filed are incorporated herein by reference.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.3 of the Current Report on Form 8-K (File No. 000-21617; Accession No. 0001144204-15-038044) filed on June 19, 2015).
3.2	Amended and Restated Bylaws of the Company (as of September 14, 2025) (incorporated by reference to Exhibit 3.2 on Form 8-K (File No. 000-21617; Accession No. 0001493152-25-013415) filed on September 15, 2025).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Form 10-KSB/A (File No. 000-21617) filed on April 4, 1997).
4.2	Description of Common Stock (incorporated by reference to Exhibit 4.3 of the Annual Report on Form 10-K (File No. 000-21617; Accession No. 0001493152-20-004807) filed on March 26, 2020).
10.1	Securities Purchase Agreement, dated July 22, 2025, by and among ProPhase Labs, Inc. and the investors (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.2	Form of Senior Secured Convertible Note (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.3	Form of Warrant issued in connection with the July 2025 Financing (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.4	Registration Rights Agreement, dated July 22, 2025 (portions redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K) (incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.5	Security Agreement, dated July 22, 2025, among ProPhase Labs, Inc., its subsidiaries, and the investors (incorporated by reference to Exhibit 10.5 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.6	Transfer Agent Reservation Letter, dated July 22, 2025 (portions redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K) (incorporated by reference to Exhibit 10.6 of the Company's Form 8-K filed July 28, 2025 (Accession No. 0001641172-25-021109)).
10.7	Amended and Restated 2022 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement on Schedule 14A filed August 15, 2025 (Accession No. 0001641172-25-024375))
10.8	2025 Equity Incentive Plan (incorporated by reference to Appendix B of the Company's Proxy Statement on Schedule 14A filed August 15, 2025 (Accession No. 0001641172-25-024375)),
10.9	ThinkEquity Engagement Letter portions redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on September 18, 2025 (Accession No. 0001493152-25-014057))
10.10	At-the-Market Sales Agreement, dated as of October 9, 2025, by and between ProPhase Labs, Inc. and WestPark Capital, Inc. (incorporated by reference to Exhibit 1.1 of the Current Report on Form 8-K filed on October 15, 2025 (Accession No. 0001493152-25-018123))
99.1	Press Release dated July 21, 2025, ProPhase Labs Board of Directors Authorizes Management to Explore Strategic Reverse Merger and Approves Crypto Treasury Initiative (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed July 21, 2025 (Accession No. 0001641172-25-020357)
99.2	Press Release dated July 23, 2025, ProPhase Labs Announces Closing of $3 Million Senior Secured Convertible Notes Financing(incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed July 23, 2025 (Accession No. 0001641172-25-020651)).
99.3	Press Release dated July 29, 2025, regarding Special Meeting of shareholders and preliminary proxy filing (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed July 29, 2025 (Accession No. 0001641172-25-021262)).
99.4	Press Release dated August 13, 2025, ProPhase Labs Announces Financial Results for the Three and Six Months Ended June 30, 2025 (Incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on August 13 (Accession No. 0001641172-25-023344)).
99.5	Press Release dated August 19, 2025, ProPhase Labs Announces Filing of Definitive Proxy Statement and New Date for Special Meeting of Shareholders (Incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on August 19, 2025 (Accession No. 0001641172-25-024730))
31.1	Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101. INS#	Inline XBRL Instance Document
101.SCH#	Inline XBRL Taxonomy Extension Schema Document
101.CAL#	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	Inline XBRL Taxonomy Extension Presentation Linkbase Document

104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

ProPhase Labs, Inc.

By: */s/ Ted Karkus*
Ted Karkus
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

Date: June 30, 2026

EXHIBIT 31.1

OFFICER'S CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Ted Karkus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ProPhase Labs, Inc.;

2. Based on my knowledge, this Quarterly 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 Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly 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 Quarterly Report;

4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly 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 Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The registrant's other certifying officer 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 30, 2026

By: */s/ Ted Karkus*
Ted Karkus
Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)

EXHIBIT 32.1

PROPHASE LABS, INC. CERTIFICATION
PURSUANT TO RULE 13a-14(b) OF THE SECURITIES
EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350, AS
ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ted Karkus, Chief Executive Officer of ProPhase Labs, Inc., a Delaware corporation (the "Registrant"), in connection with the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), do hereby represent, warrant and certify, in compliance with Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Ted Karkus
Ted Karkus
Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)
Date: June 30, 2026