

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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: 000-55709

AVALON GLOBOCARE CORP.

(Exact name of Registrant as specified in its charter)

Delaware

(State of incorporation)

47-1685128

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

4400 Route 9 South, Suite 3100, Freehold, New Jersey 07728

(Address of principal executive offices) (zip code)

(732) 780-4400

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

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

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| Common Stock, \$0.0001 par value per share | AVCO | The NASDAQ Capital Market |

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date

| Class | Outstanding May 14, 2019 |
|--|--------------------------|
| Common Stock, \$0.0001 par value per share | 75,655,639 shares |

AVALON GLOBOCARE CORP.

FORM 10-Q

March 31, 2019

TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| PART I. - FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets as of March 31, 2019 (Unaudited) and December 31, 2018 | 1 |
| Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2019 and 2018 | 2 |
| Unaudited Condensed Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2019 | 3 |
| Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018 | 4 |
| Notes to Unaudited Condensed Consolidated Financial Statements | 5 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 30 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 40 |
| Item 4. Controls and Procedures | 40 |
| PART II - OTHER INFORMATION | |
| Item 1. Legal Proceedings | 41 |
| Item 1A. Risk Factors | 41 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 41 |
| Item 3. Defaults upon Senior Securities | 41 |
| Item 4. Mine Safety Disclosures | 41 |
| Item 5. Other Information | 41 |
| Item 6. Exhibits | 43 |

FORWARD LOOKING STATEMENTS

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q and information contained in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Unless otherwise indicated, references in this report to “we,” “us” or the “Company” refer to Avalon GloboCare Corp. and its subsidiaries.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | As of | |
|--|----------------------|----------------------|
| | March 31, 2019 | December 31, 2018 |
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,769,291 | \$ 2,252,287 |
| Accounts receivable, net of allowance for doubtful accounts | 11,292 | 9,739 |
| Tenants receivable, net of allowance for doubtful accounts | 48,057 | 42,484 |
| Security deposit | 127,968 | 127,263 |
| Inventory | 17,121 | 12,994 |
| Prepaid expenses - related parties | - | 34,190 |
| Prepaid expenses and other current assets | 949,673 | 1,146,475 |
| | 2,923,402 | 3,625,432 |
| NON-CURRENT ASSETS: | | |
| Property and equipment, net | 398,697 | 249,555 |
| Investment in real estate, net | 7,851,262 | 7,879,885 |
| Intangible assets, net | 1,173,796 | 1,255,689 |
| Equity method investment | 381,899 | 385,162 |
| | 9,805,654 | 9,770,291 |
| Total Current Assets | 2,923,402 | 3,625,432 |
| Total Assets | \$ 12,729,056 | \$ 13,395,723 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 41,123 | \$ 6,695 |
| Advance from customer - related party | - | 14,829 |
| Accrued liabilities and other payables | 1,291,078 | 859,350 |
| Accrued liabilities and other payables - related parties | 34,378 | - |
| Deferred rental income | 3,012 | 14,136 |
| Loan payable | 1,000,000 | - |
| Interest payable | 100,000 | 75,342 |
| Interest payable - related party | 1,944 | - |
| VAT and other taxes payable | 25,638 | 4,668 |
| Tenants' security deposit | 66,580 | 66,700 |
| Due to related party | 100,000 | 100,000 |
| | 2,663,753 | 1,141,720 |
| Total Current Liabilities | 2,663,753 | 1,141,720 |
| NON-CURRENT LIABILITIES: | | |
| Loan payable - noncurrent portion | - | 1,000,000 |
| Note payable - related party | 1,000,000 | - |
| | 1,000,000 | 1,000,000 |
| Total Non-current Liabilities | 1,000,000 | 1,000,000 |
| Total Liabilities | 3,663,753 | 2,141,720 |
| Commitments and Contingencies - (Note 18) | | |
| EQUITY: | | |
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2019 and December 31, 2018 | - | - |
| Common stock, \$0.0001 par value; 490,000,000 shares authorized; 74,340,539 shares issued and 73,820,539 shares outstanding at March 31, 2019; 73,830,751 shares issued and 73,310,751 shares outstanding at December 31, 2018 | 7,434 | 7,383 |
| Additional paid-in capital | 26,426,074 | 24,153,378 |
| Less: common stock held in treasury, at cost; 520,000 shares at March 31, 2019 and December 31, 2018 | (522,500) | (522,500) |
| Accumulated deficit | (15,697,592) | (11,291,776) |
| Statutory reserve | 6,578 | 6,578 |
| Accumulated other comprehensive loss - foreign currency translation adjustment | (192,180) | (236,860) |
| Total Avalon GloboCare Corp. stockholders' equity | 10,027,814 | 12,116,203 |
| Non-controlling interest | (962,511) | (862,200) |
| | 9,065,303 | 11,254,003 |
| Total Equity | 9,065,303 | 11,254,003 |
| Total Liabilities and Equity | \$ 12,729,056 | \$ 13,395,723 |

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

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| | <u>For the Three Months Ended March 31, 2019</u> | <u>For the Three Months Ended March 31, 2018</u> |
|--|--|--|
| REVENUES | | |
| Real property rental | \$ 266,626 | \$ 296,623 |
| Medical related consulting services - related party | 14,260 | - |
| Development services and sales of developed products | 3,278 | 11,290 |
| Total Revenues | <u>284,164</u> | <u>307,913</u> |
| COSTS AND EXPENSES | | |
| Real property operating expenses | 230,759 | 210,274 |
| Medical related consulting services - related party | 13,091 | - |
| Development services and sales of developed products | 30,307 | 16,520 |
| Total Costs and Expenses | <u>274,157</u> | <u>226,794</u> |
| REAL PROPERTY OPERATING INCOME | <u>35,867</u> | <u>86,349</u> |
| GROSS PROFIT FROM MEDICAL RELATED CONSULTING SERVICES | <u>1,169</u> | <u>-</u> |
| GROSS LOSS FROM DEVELOPMENT SERVICES AND SALES OF DEVELOPED PRODUCTS | <u>(27,029)</u> | <u>(5,230)</u> |
| OTHER OPERATING EXPENSES: | | |
| Advertising expenses | 244,600 | - |
| Compensation and related benefits | 2,100,155 | 538,814 |
| Professional fees | 1,468,226 | 571,772 |
| Research and development expenses | 152,460 | - |
| Other general and administrative | 509,879 | 285,252 |
| Total Other Operating Expenses | <u>4,475,320</u> | <u>1,395,838</u> |
| LOSS FROM OPERATIONS | <u>(4,465,313)</u> | <u>(1,314,719)</u> |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 768 | 408 |
| Interest expense | (25,697) | (236,986) |
| Interest expense - related party | (1,944) | - |
| Loss from equity-method investment | (12,743) | - |
| Other income | - | 328 |
| Total Other Expense, net | <u>(39,616)</u> | <u>(236,250)</u> |
| LOSS BEFORE INCOME TAXES | (4,504,929) | (1,550,969) |
| INCOME TAXES | - | - |
| NET LOSS | <u>\$ (4,504,929)</u> | <u>\$ (1,550,969)</u> |
| LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST | <u>(99,113)</u> | <u>(69,390)</u> |
| NET LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS | <u>\$ (4,405,816)</u> | <u>\$ (1,481,579)</u> |
| COMPREHENSIVE LOSS: | | |
| NET LOSS | (4,504,929) | (1,550,969) |
| OTHER COMPREHENSIVE INCOME | | |
| Unrealized foreign currency translation gain | 43,482 | 52,838 |
| COMPREHENSIVE LOSS | <u>\$ (4,461,447)</u> | <u>\$ (1,498,131)</u> |
| LESS: COMPREHENSIVE LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST | <u>(100,311)</u> | <u>(69,230)</u> |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS | <u>\$ (4,361,136)</u> | <u>\$ (1,428,901)</u> |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS: | | |
| Basic and diluted | <u>\$ (0.06)</u> | <u>\$ (0.02)</u> |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | |
| Basic and diluted | <u>73,690,461</u> | <u>69,781,733</u> |

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

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 For the Three Months Ended March 31, 2018 and 2019

Avalon GloboCare Corp. Stockholders' Equity

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Statutory Reserve | Accumulated Other Comprehensive Loss | Non- controlling Interest | Total Equity |
|--|---------------------|--------|---------------------|----------|----------------------------------|---------------------|-----------|------------------------|----------------------|---|---------------------------------|-----------------|
| | Number of Shares | Amount | Number of Shares | Amount | | Number of Shares | Amount | | | | | |
| Balance, December 31, 2017 | - | \$ - | 70,278,622 | \$ 7,028 | \$ 11,490,285 | - | \$ - | \$ (3,517,654) | \$ 6,578 | \$ (91,994) | \$ (585,394) | \$ 7,308,849 |
| Treasury stock purchase | - | - | - | - | - | (520,000) | (522,500) | - | - | - | - | (522,500) |
| Stock-based compensation and service fees | - | - | - | - | 526,348 | - | - | - | - | - | - | 526,348 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | 52,678 | 160 | 52,838 |
| Net loss for the three months ended March 31, 2018 | - | - | - | - | - | - | - | (1,481,579) | - | - | (69,390) | (1,550,969) |
| Balance, March 31, 2018 | - | \$ - | 70,278,622 | \$ 7,028 | \$ 12,016,633 | (520,000) | (522,500) | \$ (4,999,233) | \$ 6,578 | \$ (39,316) | \$ (654,624) | \$ 5,814,566 |
| Balance, December 31, 2018 | - | \$ - | 73,830,751 | \$ 7,383 | \$ 24,153,378 | (520,000) | (522,500) | \$ (11,291,776) | \$ 6,578 | \$ (236,860) | \$ (862,200) | \$ 11,254,003 |
| Issuance of common stock upon cashless exercise of stock options | - | - | 350,856 | 35 | (35) | - | - | - | - | - | - | - |
| Issuance of common stock upon exercise of warrants | - | - | 158,932 | 16 | (16) | - | - | - | - | - | - | - |
| Stock-based compensation | - | - | - | - | 2,272,747 | - | - | - | - | - | - | 2,272,747 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | 44,680 | (1,198) | 43,482 |
| Net loss for the three months ended March 31, 2019 | - | - | - | - | - | - | - | (4,405,816) | - | - | (99,113) | (4,504,929) |
| Balance, March 31, 2019 | - | \$ - | 74,340,539 | \$ 7,434 | \$ 26,426,074 | (520,000) | (522,500) | \$ (15,697,592) | \$ 6,578 | \$ (192,180) | \$ (962,511) | \$ 9,065,303 |

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

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Three Months Ended March 31, 2019 | For the Three Months Ended March 31, 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (4,504,929) | \$ (1,550,969) |
| Adjustments to reconcile net loss from operations to net cash used in operating activities: | | |
| Depreciation and amortization | 139,131 | 123,379 |
| Stock-based compensation expense | 2,272,747 | 526,348 |
| Loss on equity method investment | 12,743 | - |
| Changes in operating assets and liabilities, | | |
| Accounts receivable | (1,305) | 3,469 |
| Tenants receivable | (5,573) | 479 |
| Inventory | (3,947) | (7,372) |
| Prepaid expenses - related parties | 34,814 | - |
| Prepaid expenses and other current assets | 197,829 | 75,693 |
| Security deposit | (37) | 5,284 |
| Accounts payable | 34,080 | (30) |
| Advance from customer - related party | (15,115) | - |
| Accrued liabilities and other payables | 346,694 | 178,136 |
| Accrued liabilities and other payables - related parties | 34,326 | (14,498) |
| Deferred rental income | (11,124) | (5,515) |
| Interest payable | 24,658 | 236,986 |
| Interest payable - related party | 1,944 | - |
| VAT and other taxes payable | 20,873 | 31,264 |
| Tenants' security deposit | (120) | (18,888) |
| NET CASH USED IN OPERATING ACTIVITIES | (1,422,311) | (416,234) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (76,033) | (7,852) |
| Improvement of commercial real estate | (11,338) | - |
| NET CASH USED IN INVESTING ACTIVITIES | (87,371) | (7,852) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds received from note payable - related party | 1,000,000 | - |
| Repurchase of common stock | - | (522,500) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 1,000,000 | (522,500) |
| EFFECT OF EXCHANGE RATE ON CASH | 26,686 | 45,209 |
| NET DECREASE IN CASH | (482,996) | (901,377) |
| CASH - beginning of period | 2,252,287 | 3,027,033 |
| CASH - end of period | <u>\$ 1,769,291</u> | <u>\$ 2,125,656</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | <u>\$ 1,039</u> | <u>\$ -</u> |
| Income taxes | <u>\$ -</u> | <u>\$ -</u> |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Property and equipment acquired on credit as payable | <u>\$ 84,348</u> | <u>\$ -</u> |
| Acquisition of equipment by decreasing prepayment for long-term assets | <u>\$ -</u> | <u>\$ 110,103</u> |

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

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Avalon GloboCare Corp. (f/k/a Global Technologies Corp.) (the “Company” or “AVCO”) is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on July 28, 2014. On October 18, 2016, the Company changed its name to Avalon GloboCare Corp. and completed a reverse split its shares of common stock at a ratio of 1:4. On October 19, 2016, the Company entered into and closed a Share Exchange Agreement with the shareholders of Avalon Healthcare System, Inc., a Delaware corporation (“AHS”), each of which are accredited investors (“AHS Shareholders”) pursuant to which we acquired 100% of the outstanding securities of AHS in exchange for 50,000,000 shares of our common stock (the “AHS Acquisition”). AHS was incorporated on May 18, 2015 under the laws of the State of Delaware. As a result of such acquisition, the Company’s operations now are focused on integrating and managing global healthcare services and resources, as well as empowering high-impact biomedical innovations and technologies to accelerate their clinical applications. We are dedicated to advancing cell-based technologies and therapeutics, as well as empowering high-impact biomedical innovations to accelerate their clinical applications. Our ecosystem covers the areas of exosome technology (including liquid biopsy and regenerative therapeutics) and cellular immunotherapy. We plan to integrate technologies and services through joint venture and subsidiary structures that bring shareholder value both in the short term, through operational entities and long term, through biomedical innovation development, such as our recent joint venture for the advancement of exosome isolation systems and related products. AHS owns 100% of the capital stock of Avalon (Shanghai) Healthcare Technology Co., Ltd. (“Avalon Shanghai”), which is a wholly foreign-owned enterprise organized under the laws of the People’s Republic of China (“PRC”). Avalon Shanghai was incorporated on April 29, 2016 and is engaged in medical related consulting services for customers.

For accounting purposes, AHS was the surviving entity. The transaction was accounted for as a recapitalization of AHS pursuant to which AHS was treated as the accounting acquirer, surviving and continuing entity although the Company is the legal acquirer. The Company did not recognize goodwill or any intangible assets in connection with this transaction. Accordingly, the Company’s historical financial statements are those of AHS and its wholly-owned subsidiary, Avalon Shanghai immediately following the consummation of this reverse merger transaction.

On January 23, 2017, the Company incorporated Avalon (BVI) Ltd., a British Virgin Island company. There was no activity for the subsidiary since its incorporation through March 31, 2019. Avalon (BVI) Ltd. is dormant and is in process of being dissolved.

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

On July 31, 2017, the Company formed GenExosome Technologies Inc. (“GenExosome”) in Nevada.

On October 25, 2017, GenExosome and the Company entered into a Securities Purchase Agreement pursuant to which the Company acquired 600 shares of GenExosome in consideration of \$1,326,087 in cash and 500,000 shares of common stock of the Company.

On October 25, 2017, GenExosome entered into and closed an Asset Purchase Agreement with Yu Zhou, MD, PhD, pursuant to which the Company acquired all assets, including all intellectual property, held by Dr. Zhou pertaining to the business of researching, developing and commercializing exosome technologies including, but not limited to, patent application number CN 2016 1 0675107.5 (application of an Exosomal MicroRNA in plasma as biomarker to diagnosis liver cancer), patent application number CN 2016 1 0675110.7 (clinical application of circulating exosome carried miRNA-33b in the diagnosis of liver cancer), patent application number CN 2017 1 0330847.X (saliva exosome based methods and composition for the diagnosis, staging and prognosis of oral cancer) and patent application number CN 2017 1 0330835.7 (a novel exosome-based therapeutics against proliferative oral diseases). In consideration of the assets, GenExosome agreed to pay Dr. Zhou \$876,087 in cash, transfer 500,000 shares of common stock of the Company to Dr. Zhou and issue Dr. Zhou 400 shares of common stock of GenExosome.

As a result of the above transactions, effective October 25, 2017, the Company holds 60% of GenExosome and Dr. Zhou holds 40% of GenExosome. GenExosome is engaged in developing proprietary diagnostic and therapeutic products leveraging its exosome technology and marketing and distributing its proprietary Exosome Isolation Systems.

On October 25, 2017, GenExosome entered into and closed a Stock Purchase Agreement with Beijing Jieteng (GenExosome) Biotech Co. Ltd., a corporation incorporated in the People’s Republic of China on August 7, 2015 (“Beijing GenExosome”) and Dr. Zhou, the sole shareholder of Beijing GenExosome, pursuant to which GenExosome acquired all of the issued and outstanding securities of Beijing GenExosome in consideration of a cash payment in the amount of \$450,000.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS (continued)

Beijing GenExosome is engaged in the development of exosome technology to improve diagnosis and management of diseases. Exosomes are tiny, subcellular, membrane-bound vesicles in diameter of 30-150 nm that are released by almost all cell types and that can carry membrane and cellular proteins, as well as genetic materials that are representative of the cell of origin. Profiling various bio-molecules in exosomes may serve as useful biomarkers for a wide variety of diseases. Beijing GenExosome’s research kits are designed to be used by researchers for biomarker discovery and clinical diagnostic development, and the advancement of targeted therapies. Currently, research kits and service are available to isolate exosomes or extract exosomal RNA/protein from serum/plasma, urine and saliva samples. Beijing GenExosome is seeking to decode proteomic and genomic alterations underlying a wide-range of pathologies, thus allowing for the introduction of novel non-invasive “liquid biopsies”. Its mission is focused toward diagnostic advancements in the fields of oncology, infectious diseases and fibrotic diseases, and discovery of disease-specific exosomes to provide disease origin insight necessary to enable personalized clinical management.

On July 18, 2018, the Company formed a wholly owned subsidiary, Avactis Biosciences Inc., a Nevada corporation, which will be focused on accelerating commercial activities related to cellular therapies, including regenerative medicine with stem/progenitor cells as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others. The subsidiary is designed to integrate and optimize our global scientific and clinical resources to further advance the use of cellular therapies to treat certain cancers. There was no activity for the subsidiary since its incorporation through March 31, 2019.

Details of the Company’s subsidiaries which are included in these consolidated financial statements as of March 31, 2019 are as follows:

| Name of Subsidiaries | Place and date of Incorporation | Percentage of Ownership | Principal Activities |
|--|---|-------------------------|--|
| Avalon Healthcare System, Inc. (“AHS”) | Delaware May 18, 2015 | 100% held by AVCO | Provides medical related consulting services and developing Avalon Cell and Avalon Rehab in United States of America (“USA”) |
| Avalon (BVI) Ltd. (“Avalon BVI”) | British Virgin Island January 23, 2017 | 100% held by AVCO | Dormant, is in process of being dissolved |
| Avalon RT 9 Properties LLC (“Avalon RT 9”) | New Jersey February 7, 2017 | 100% held by AVCO | Owns and operates an income-producing real property and holds and manages the corporate headquarters |
| Avalon (Shanghai) Healthcare Technology Co., Ltd. (“Avalon Shanghai”) | PRC April 29, 2016 | 100% held by AHS | Provides medical related consulting services and developing Avalon Cell and Avalon Rehab in China |
| GenExosome Technologies Inc. (“GenExosome”) | Nevada July 31, 2017 | 60% held by AVCO | Develops proprietary diagnostic and therapeutic products leveraging exosome technology and markets and distributes proprietary Exosome Isolation Systems in USA |
| Beijing Jieteng (GenExosome) Biotech Co., Ltd. (“Beijing GenExosome”) | PRC August 7, 2015 | 100% held by GenExosome | Provides development services for hospitals and other customers and sells developed items to hospitals and other customers in China |
| Avactis Biosciences Inc. (“Avactis”) | Nevada July 18, 2018 | 100% held by AVCO | Integrate and optimize global scientific and clinical resources to further advance cellular therapies, including regenerative medicine with stem/progenitor cells as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others to treat certain cancers |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 2 – BASIS OF PRESENTATION

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

Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on March 26, 2019.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates during the three months ended March 31, 2019 and 2018 include the allowance for doubtful accounts, reserve for obsolete inventory, the useful life of property and equipment and investment in real estate and intangible assets, assumptions used in assessing impairment of long-term assets, valuation of deferred tax assets and the associated valuation allowances, and valuation of stock-based compensation.

Fair Value of Financial Instruments and Fair Value Measurements

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

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

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash, accounts receivable, tenants receivable, security deposit, inventory, prepaid expenses and other current assets, accounts payable, accrued liabilities and other payables, accrued liabilities and other payables – related parties, deferred rental income, loan payable, interest payable, interest payable – related party, Value Added Tax (“VAT”) and other taxes payable, tenants’ security deposit, and due to related party, approximate their fair market value based on the short-term maturity of these instruments.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments and Fair Value Measurements (continued)

At March 31, 2019 and December 31, 2018, intangible assets were measured at fair value on a nonrecurring basis as shown in the following tables.

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at March 31, 2019 | Impairment Loss |
|--------------------------------|--|---|--|------------------------------|--------------------|
| Patents and other technologies | \$ - | \$ - | \$ 1,173,796 | \$ 1,173,796 | \$ - |

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2018 | Impairment Loss |
|--------------------------------|--|---|--|------------------------------------|--------------------|
| Patents and other technologies | \$ - | \$ - | \$ 1,255,689 | \$ 1,255,689 | \$ - |

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

Cash

Cash consists of cash on hand and cash in banks. The Company maintains cash with various financial institutions in the PRC and United States. At March 31, 2019 and December 31, 2018, cash balances in PRC are \$814,166 and \$1,216,485, respectively, are uninsured. At March 31, 2019 and December 31, 2018, cash balances in United States are \$955,125 and \$1,035,802, respectively. The Company has not experienced any losses in bank accounts and believes it is not exposed to any risks on its cash in bank accounts.

Concentrations of Credit Risk

Currently, a portion of the Company’s operations are carried out in PRC. Accordingly, the Company’s business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC’s economy. The Company’s operations in PRC are subject to specific considerations and significant risks not typically associated with companies in North America. The Company’s results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, trade accounts receivable and tenants receivable. A portion of the Company’s cash is maintained with state-owned banks within the PRC, and none of these deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts. A portion of the Company’s sales are credit sales which is to the customer whose ability to pay is dependent upon the industry economics prevailing in these areas; however, concentrations of credit risk with respect to trade accounts receivable and tenants receivable is limited due to generally short payment terms. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk (continued)

At March 31, 2019 and December 31, 2018, the Company’s cash balances by geographic area were as follows:

| Country: | March 31, 2019 | | December 31, 2018 | |
|---------------|---------------------|---------------|---------------------|---------------|
| United States | \$ 955,125 | 54.0% | \$ 1,035,802 | 46.0% |
| China | 814,166 | 46.0% | 1,216,485 | 54.0% |
| Total cash | <u>\$ 1,769,291</u> | <u>100.0%</u> | <u>\$ 2,252,287</u> | <u>100.0%</u> |

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer’s historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection.

Management believes that the accounts receivable are fully collectable. Therefore, no allowance for doubtful accounts is deemed to be required on its accounts receivable at March 31, 2019 and December 31, 2018. The Company historically has not experienced uncollectible accounts from customers granted with credit sales.

Tenants Receivable and Allowance for Doubtful Accounts

Tenants receivable are presented net of an allowance for doubtful accounts. Tenants receivable balance consist of base rents, tenant reimbursements and receivables arising from straight-lining of rents primarily represent amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to the Company’s revenue recognition policy. An allowance for the uncollectible portion of tenant receivable is determined based upon an analysis of the tenant’s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in Freehold, New Jersey in which the property is located.

Management believes that the tenants receivable are fully collectable. Therefore, no allowance for doubtful accounts is deemed to be required on its tenants receivable at March 31, 2019 and December 31, 2018.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. A reserve is established when management determines that certain inventory may not be saleable. If inventory costs exceed expected market value due to obsolescence or quantities in excess of expected demand, the Company will record a write down in inventory for the difference between the cost and the lower of cost or estimated net realizable value. The reserve and write down are recorded based on estimates. The Company did not record any inventory reserve and or write down at March 31, 2019 and December 31, 2018.

Property and Equipment

Property and equipment are carried at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the period of disposition. The Company examines the possibility of decreases in the value of fixed assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Real Estate and Depreciation

Investment in real estate is carried at cost less accumulated depreciation and consists of building and improvement. The Company depreciates real estate building and improvement on a straight-line basis over estimated useful life. Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditure for improvements, renovations, and replacements of real estate asset is capitalized and depreciated over its estimated useful life if the expenditure qualifies as betterment. Real estate depreciation expense was \$39,961 and \$31,805 for the three months ended March 31, 2019 and 2018, respectively.

Intangible Assets

Intangible assets consist of patents and other technologies. Patents and other technologies are being amortized on a straight-line method over the estimated useful life of 5 years.

Investment in Unconsolidated Company – Epicon Biotech Co., Ltd.

The Company uses the equity method of accounting for its investment in, and earning or loss of, company that it does not control but over which it does exert significant influence. The Company considers whether the fair value of its equity method investment has declined below its carrying value whenever adverse events or changes in circumstances indicate that recorded value may not be recoverable. If the Company considers any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write-down would be recorded to estimated fair value. See Note 9 for discussion of equity method investment.

Impairment of Long-lived Assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charge for the three months ended March 31, 2019 and 2018 as there was no impairment indicator noted as of the filing date of this report.

Deferred Rental Income

Deferred rental income represents rental income collected but not earned as of the reporting date. The Company defers the revenue related to lease payments received from tenants in advance of their due dates. As of March 31, 2019 and December 31, 2018, deferred rental income totaled \$3,012 and \$14,136, respectively.

Value Added Tax

Avalon Shanghai and Beijing GenExosome are subject to a value added tax ("VAT") for providing medical related consulting services and performing development services and sales of developed products. The amount of VAT liability is determined by applying the applicable tax rates to the invoiced amount of medical related consulting services provided and the invoiced amount of development services provided and sales of developed products (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). The Company reports revenue net of PRC's value added tax for all the periods presented in the consolidated statements of operations.

Revenue Recognition

Effective January 1, 2018, the Company began recognizing revenue under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective transition method. The impact of adopting the new revenue standard was not material to the Company's consolidated financial statements and there was no adjustment to beginning accumulated deficit on January 1, 2018. The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct).
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Types of revenue:

- Rental revenue from leasing commercial property under operating leases with terms of generally three years or more.
- Service fees under consulting agreements with related parties to provide medical related consulting services to its clients. The Company is paid for its services by its clients pursuant to the terms of the written consulting agreements. Each contract calls for a fixed payment.
- Service fees under agreements to perform development services for hospitals and other customers. The Company does not perform contracts that are contingent upon successful results.
- Sales of developed products to hospitals and other customers.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Revenue recognition criteria:

- The Company recognizes rental revenue from its commercial leases on a straight-line basis over the life of the lease including rent holidays, if any. Straight-line rent receivable consists of the difference between the tenants' rents calculated on a straight-line basis from the date of lease commencement over the remaining terms of the related leases and the tenants' actual rents due under the lease agreements and is included in tenants receivable in the accompanying consolidated balance sheets. Revenues associated with operating expense recoveries are recognized in the period in which the expenses are incurred.
- The Company recognizes revenue by providing medical related consulting services under written service contracts with its customers. Revenue related to its service offerings is recognized as the services are performed.
- Revenue from development services performed under written contracts is recognized as services are provided.
- Revenue from sales of developed items to hospitals and other customers is recognized when items are shipped to customers and titles are transferred.

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

Office Lease

When a lease contains "rent holidays", the Company records rental expense on a straight-line basis over the term of the lease and the difference between the average rental amount charged to expense and the amount payable under the lease is recorded as prepaid expenses in the consolidated balance sheets. The Company begins recording rent expense on the lease possession date.

Real Property Operating Expenses

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

Medical Related Consulting Services Costs

Costs of medical related consulting services includes the cost of internal labor and related benefits, travel expenses related to consulting services, subcontractor costs, other related consulting costs, and other overhead costs. Subcontractor costs were costs related to medical related consulting services incurred by our subcontractor, such as medical professional's compensation and travel costs.

Development Services and Sales of Developed Products Costs

Costs of development services and sales of developed items includes inventory costs, materials and supplies costs, depreciation, internal labor and related benefits, other overhead costs and shipping and handling costs incurred.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and are included in cost of sales. For the three months ended March 31, 2019 and 2018, shipping and handling costs amounted to \$0 and \$25, respectively.

Research and Development

Expenditures for research and product development costs are expensed as incurred. The Company incurred research and development expense in the amount of \$152,460 related to the development of proprietary diagnostic and therapeutic products leveraging exosome technology and optimization of Exosome Isolation Systems, and the development of standardization of clinical-grade exosome bio-production and study of tissue-specific exosomes from various human cell types in the three months ended March 31, 2019. The Company did not incur any research and development costs during the three months ended March 31, 2018.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

All costs related to advertising are expensed as incurred. For the three months ended March 31, 2019, advertising costs amounted to \$244,600. We did not incur any advertising expense during the three months ended March 31, 2018.

Stock-based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment topic of Accounting Standards Codification (“ASC”) 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award. The Accounting Standards Codification also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is recognized over the period of services or the vesting period, whichever is applicable. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company’s compensation expense for unvested options to non-employees is re-measured at each balance sheet date and is being amortized over the vesting period of the options.

Income Taxes

The Company accounts for income taxes using the asset/liability method prescribed by ASC 740, “Income Taxes.” Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 “Income Taxes”. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of March 31, 2019 and December 31, 2018, the Company had no significant uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax year that remains subject to examination is the years ended December 31, 2019, 2018 and 2017. The Company recognizes interest and penalties related to significant uncertain income tax positions in other expense. However, no such interest and penalties were recorded as of March 31, 2019 and December 31, 2018.

In December 2017, the United States Government passed new tax legislation that, among other provisions, lowered the corporate tax rate from 35% to 21%. In addition to applying the new lower corporate tax rate in 2018 and thereafter to any taxable income the Company may have, the legislation affects the way the Company can use and carryforward net operating losses previously accumulated and results in a revaluation of deferred tax assets and liabilities recorded on the balance sheet. Given that current deferred tax assets are offset by a full valuation allowance, these changes will have no net impact on the balance sheet. However, when the Company becomes profitable, the Company will receive a reduced benefit from such deferred tax assets.

Foreign Currency Translation

The reporting currency of the Company is the U.S. dollar. The functional currency of the parent company, AHS, Avalon RT 9, GenExosome, and Avactis, is the U.S. dollar and the functional currency of Avalon Shanghai and Beijing GenExosome, is the Chinese Renminbi (“RMB”). For the subsidiaries whose functional currency is the RMB, result of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate at the end of the period, and equity is translated at historical exchange rates. As a result, amounts relating to assets and liabilities reported on the statements of cash flows may not necessarily agree with the changes in the corresponding balances on the balance sheets. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income/loss. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date with any transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2019

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation (continued)

All of the Company’s revenue transactions are transacted in the functional currency of the operating subsidiaries. The Company does not enter into any material transaction in foreign currencies. Transaction gains or losses have not had, and are not expected to have, a material effect on the results of operations of the Company.

Asset and liability accounts at March 31, 2019 and December 31, 2018 were translated at 6.7121 RMB to \$1.00 and at 6.8785 RMB to \$1.00, respectively, which were the exchange rates on the balance sheet dates. Equity accounts were stated at their historical rates. The average translation rates applied to the statements of operations for the three months ended March 31, 2019 and 2018 were 6.7481 RMB and 6.3577 RMB to \$1.00, respectively. Cash flows from the Company’s operations are calculated based upon the local currencies using the average translation rate.

Comprehensive Loss

Comprehensive loss is comprised of net loss and all changes to the statements of equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. For the Company, comprehensive loss for the three months ended March 31, 2019 and 2018 consisted of net loss and unrealized gain from foreign currency translation adjustment.

Per Share Data

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

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

The following table presents a reconciliation of basic and diluted net loss per share:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Net loss available to Avalon GloboCare Corp. common shareholders for basic and diluted net loss per share of common stock | \$ (4,405,816) | \$ (1,481,579) |
| Weighted average common stock outstanding - basic and diluted | 73,690,461 | 69,781,733 |
| Net loss per common share attributable to Avalon GloboCare Corp. common shareholders - basic and diluted | <u>\$ (0.06)</u> | <u>\$ (0.02)</u> |

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---------------------------------|---|---|
| Stock options | 5,040,000 | 2,410,000 |
| Warrants | 578,891 | - |
| Potentially dilutive securities | <u>5,618,891</u> | <u>2,410,000</u> |

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Acquisition

The Company accounts for business acquisition in accordance with ASC No. 805, Business Combinations. The assets acquired and liabilities assumed from the acquired business are recorded at fair value, with the residual of the purchase price recorded as goodwill. The result of operations of the acquired business is included in the Company's operating result from the date of acquisition.

Non-controlling Interest

As of March 31, 2019, Dr. Yu Zhou, director and Co-Chief Executive Officer of GenExosome, who owned 40% of the equity interests of GenExosome, which is not under the Company's control.

Segment Reporting

The Company uses "the management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company's chief operating decision maker is the chief executive officer ("CEO") and president of the Company, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company has determined that it has three reportable business segments: real property operating segment, medical related consulting services segment, and development services and sales of developed products segment. These reportable segments offer different types of services and products, have different types of revenue, and are managed separately as each requires different operating strategies and management expertise.

Related Parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all significant related party transactions.

Reclassification

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

Reverse Stock Split

The Company effected a one-for-four reverse stock split of its common stock on October 18, 2016. All share and per share information has been retroactively adjusted to reflect this reverse stock split.

Fiscal Year End

The Company has adopted a fiscal year end of December 31st.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases", ("ASU 842") which amended the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 842 is effective for public companies during interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU No. 2018-11, which permits entities to record the right-of-use asset and lease liability on the date of adoption, with no requirement to recast comparative periods.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

The Company adopted ASU 842 effective January 1, 2019 using the optional transition method of recognizing a cumulative-effect adjustment to the opening balance of accumulated deficit on January 1, 2019. Therefore, comparative financial information was not adjusted and continues to be reported under the prior lease accounting guidance in ASU 840. The Company elected the transition relief package of practical expedients, and as a result, the Company did not assess 1) whether existing or expired contracts contain embedded leases, 2) lease classification for any existing or expired leases, and 3) whether lease origination costs qualified as initial direct costs. The Company elected the short-term lease practical expedient by establishing an accounting policy to exclude leases with a term of 12 months or less, as well as the land easement practical expedient for maintaining its current accounting policy for existing or expired land easements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The objective of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to the financial statements by removing, modifying, and adding certain fair value disclosure requirements to facilitate clear communication of the information required by generally accepted accounting principles. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted upon issuance of this ASU. The Company is currently evaluating the potential impact of this new guidance.

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

NOTE 4 – INVENTORY

At March 31, 2019 and December 31, 2018, inventory consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|--------------------------------------|------------------|----------------------|
| Raw material | \$ 17,079 | \$ 12,953 |
| Finished goods | 42 | 41 |
| | 17,121 | 12,994 |
| Less: reserve for obsolete inventory | - | - |
| | <u>\$ 17,121</u> | <u>\$ 12,994</u> |

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

At March 31, 2019 and December 31, 2018, prepaid expenses and other current assets consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| Prepaid professional fees | \$ 397,125 | \$ 607,833 |
| Prepaid research and development service fees | 400,000 | 300,000 |
| Prepaid insurance expense | 37,336 | 72,352 |
| Prepaid listing fee | 56,250 | - |
| Prepaid dues and subscriptions | 18,750 | 70,000 |
| Other | 40,212 | 96,290 |
| | <u>\$ 949,673</u> | <u>\$ 1,146,475</u> |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 6 – PROPERTY AND EQUIPMENT

At March 31, 2019 and December 31, 2018, property and equipment consisted of the following:

| | Useful life | March 31, 2019 | December 31, 2018 |
|--------------------------------|--------------------------------------|-------------------|----------------------|
| Laboratory equipment | 5 Years | \$ 424,368 | \$ 258,345 |
| Office equipment and furniture | 3 – 10 Years | 37,089 | 35,627 |
| Leasehold improvement | Shorter of useful life or lease term | - | 24,446 |
| | | 461,457 | 318,418 |
| Less: accumulated depreciation | | (62,760) | (68,863) |
| | | <u>\$ 398,697</u> | <u>\$ 249,555</u> |

For the three months ended March 31, 2019 and 2018, depreciation expense of property and equipment amounted to \$17,277 and \$9,681, respectively, of which, \$819 and \$819 was included in real property operating expenses, \$13,175 and \$3,768 was included in costs of development services and sales of developed products, and \$3,283 and \$5,094 was included in other operating expenses, respectively.

NOTE 7 – INVESTMENT IN REAL ESTATE

At March 31, 2019 and December 31, 2018, investment in real estate consisted of the following:

| | Useful life | March 31, 2019 | December 31, 2018 |
|-----------------------------------|-------------|---------------------|----------------------|
| Commercial real property building | 39 Years | \$ 7,708,571 | \$ 7,708,571 |
| Improvement | 12 Years | 402,844 | 391,506 |
| | | 8,111,415 | 8,100,077 |
| Less: accumulated depreciation | | (260,153) | (220,192) |
| | | <u>\$ 7,851,262</u> | <u>\$ 7,879,885</u> |

For the three months ended March 31, 2019 and 2018, depreciation expense of this commercial real property amounted to \$39,961 and \$31,805, which was included in real property operating expenses.

NOTE 8 – INTANGIBLE ASSETS

At March 31, 2019 and December 31, 2018, intangible assets consisted of the following:

| | Useful Life | March 31, 2019 | December 31, 2018 |
|--------------------------------|-------------|---------------------|----------------------|
| Patents and other technologies | 5 Years | \$ 1,583,260 | \$ 1,583,260 |
| Less: accumulated amortization | | (409,464) | (327,571) |
| | | <u>\$ 1,173,796</u> | <u>\$ 1,255,689</u> |

For the three months ended March 31, 2019 and 2018, amortization expense amounted to \$81,893.

Amortization of intangible assets attributable to future periods is as follows:

| Year ending March 31: | Amortization amount |
|-----------------------|------------------------|
| 2020 | \$ 327,571 |
| 2021 | 327,571 |
| 2022 | 327,571 |
| 2023 | 191,083 |
| | <u>\$ 1,173,796</u> |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2019

NOTE 9 – EQUITY METHOD INVESTMENT

As of March 31, 2019 and December 31, 2018, equity method investment amounted to \$381,899 and \$385,162, respectively. The investment represents the Company's subsidiary, Avalon Shanghai's interest in Epicon Biotech Co., Ltd. ("Epicon"). Epicon was incorporated on August 14, 2018 in PRC. Avalon Shanghai and the other unrelated company, Jiangsu Unicorn Biological Technology Co., Ltd. ("Unicorn"), accounted for 40% and 60% of the total ownership, respectively. Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements.

The Company treats the equity investment in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Company's share of the incorporated-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post incorporation change in the Company's share of the investee's net assets and any impairment loss relating to the investment. For the three months ended March 31, 2019, the Company's share of Epicon's net loss was \$12,743, which was included in loss from equity-method investment in the accompanying consolidated statements of operations and comprehensive loss.

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

| | March 31, 2019 | December 31, 2018 |
|------------------------|----------------|---|
| Current assets | \$ 227,165 | \$ 301,714 |
| Noncurrent assets | 64,572 | 7,015 |
| Current liabilities | 7,420 | 38 |
| Noncurrent liabilities | - | - |
| Equity | 284,317 | 308,691 |
| | | For the Three Months Ended March 31, 2019 |
| Net revenue | | \$ - |
| Gross profit | | - |
| Loss from operation | | 31,856 |
| Net loss | | 31,856 |

NOTE 10 – ACCRUED LIABILITIES AND OTHER PAYABLES

At March 31, 2019 and December 31, 2018, accrued liabilities and other payables consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|--------------------------------|---------------------|----------------------|
| Accrued payroll liability | \$ 635,065 | \$ 529,472 |
| Accrued professional fees | 431,947 | 166,077 |
| Lab equipment purchase payable | 84,348 | - |
| Insurance payable | 22,690 | 45,088 |
| Accrued dues and subscriptions | 50,000 | 42,500 |
| Other | 67,028 | 76,213 |
| | <u>\$ 1,291,078</u> | <u>\$ 859,350</u> |

NOTE 11 – LOAN PAYABLE

On April 19, 2017, the Company entered into a loan agreement, providing for the issuance of a loan in the principal amount of \$2,100,000. The term of the loan is one year. On May 3, 2018, the Company signed an extension agreement with the maturity date of March 31, 2019. On August 3, 2018, the Company signed an extension agreement for the loan with the maturity date of March 31, 2020. The annual interest rate for the loan is 10%. The loan is guaranteed by the Company's Chairman, Mr. Wenzhao Lu. The Company repaid principal of \$600,000, \$500,000 and \$1,000,000 in November 2017, April 2018 and April 2019, respectively.

As of March 31, 2019, the outstanding principal balance of the loan and related accrued and unpaid interest for the loan was \$1,000,000 and \$100,000, respectively.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 12 – VAT AND OTHER TAXES PAYABLE

At March 31, 2019 and December 31, 2018, VAT and other taxes payable consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|---------------------|------------------|----------------------|
| VAT payable | \$ - | \$ 1,108 |
| Other taxes payable | 25,638 | 3,560 |
| | <u>\$ 25,638</u> | <u>\$ 4,668</u> |

NOTE 13 – RELATED PARTY TRANSACTIONS

Medical Related Consulting Services Revenue from Related Party

During the three months ended March 31, 2019 and 2018, medical related consulting services revenue from related parties was as follows:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|--|---|--|
| Medical related consulting services provided to: | | |
| Beijing Daopei (1) | \$ 14,260 | \$ - |
| | <u>\$ 14,260</u> | <u>\$ -</u> |

(1) Beijing Daopei is a subsidiary of an entity whose chairman is Wenzhao Lu, the largest shareholder of the Company.

Prepaid Expenses – Related Parties

As of March 31, 2019 and December 31, 2018, the Company made prepayment of \$0 and \$1,897, respectively, to David Jin, its shareholder, chief executive officer, president and board member, for business travel reimbursement, which have been included in prepaid expenses – related parties on the accompanying consolidated balance sheets.

As of March 31, 2019 and December 31, 2018, the Company made prepayment of \$0 and \$32,293, respectively, to Meng Li, its shareholder and chief operating officer, for business travel reimbursement, which have been included in prepaid expenses – related parties on the accompanying consolidated balance sheets.

Advance from Customer – Related Party

At March 31, 2019 and December 31, 2018, advance from customer – related party amounted to \$0 and \$14,829, respectively, which represents prepayment received from our related party, Beijing Daopei, for medical related consulting services. When the services are performed, the amount recorded as advance from customer – related party is recognized as revenue.

Accrued Liabilities and Other Payables – Related Parties

At March 31, 2019 and December 31, 2018, the Company owed David Jin, its shareholder, chief executive officer, president and board member, of \$14,424 and \$0, respectively, for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

At March 31, 2019 and December 31, 2018, the Company owed Yu Zhou, co-chief executive officer of GenExosome, of \$5,319 and \$0, respectively, for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 13 – RELATED PARTY TRANSACTIONS (continued)

Accrued Liabilities and Other Payables – Related Parties (continued)

At March 31, 2019 and December 31, 2018, the Company owed Luisa Ingargiola, its chief financial officer, of \$7,253 and \$0, respectively, for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

At March 31, 2019 and December 31, 2018, the Company owed Epicon of \$7,382 and \$0, respectively, for expenses paid on behalf of the Company, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

Due to Related Party

In connection with the acquisition discussed elsewhere in this report, the Company acquired Beijing GenExosome in cash payment of \$450,000. On October 25, 2017, Dr. Yu Zhou, the former sole shareholder of Beijing GenExosome, was appointed to the board of directors of GenExosome and served as co-chief executive officer of GenExosome. As of March 31, 2019 and December 31, 2018, the unpaid acquisition consideration of \$100,000, was payable to Dr. Yu Zhou, co-chief executive officer and board member of GenExosome, and reflected as due to related party on the accompanying consolidated balance sheets.

Real Property Management Agreement

The Company pays a company, which is controlled by Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors, for the management of its commercial real property located in New Jersey. The property management agreement commenced on May 5, 2017 and expired in March 2019. For the three months ended March 31, 2019 and 2018, the management fee related to the property management agreement amounted to \$23,334 and \$16,251, respectively.

Note Payable – Related Party

On March 18, 2019, the Company issued Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors, a Promissory Note in the principal amount of \$1,000,000 ("Promissory Note") in consideration of cash in the amount of \$1,000,000. The Promissory Note accrues interest at the rate of 5% per annum and matures March 19, 2022.

As of March 31, 2019, the outstanding principal balance of the note and related accrued and unpaid interest for the note was \$1,000,000 and \$1,944, respectively.

Office Space from Related Party

Beijing GenExosome uses office space of a related party, free of rent, which is considered immaterial.

NOTE 14 – EQUITY

Shares Authorized

The Company is authorized to issue 10,000,000 shares of preferred stock and 490,000,000 shares of common shares with a par value of \$0.0001 per share.

There are no shares of its preferred stock issued and outstanding as of March 31, 2019 and December 31, 2018.

There are 74,340,539 and 73,830,751 shares of its common stock issued as of March 31, 2019 and December 31, 2018, respectively

There are 73,820,539 and 73,310,751 shares of its common stock outstanding as of March 31, 2019 and December 31, 2018, respectively.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 14 – EQUITY (continued)

Common Shares Issued for Warrant Exercise

On January 9, 2019, the Company issued 350,856 shares of its common stock upon cashless exercise of warrants to purchase 578,891 shares of common stock.

Common Shares Issued for Option Exercise

On February 27, 2019, the Company issued 158,932 shares of its common stock upon cashless exercise of options to purchase 200,000 shares of common stock.

Options

The following table summarizes the shares of the Company’s common stock issuable upon exercise of options outstanding at March 31, 2019:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | | |
|-------------------------|--------------------------------------|--|---------------------------------|--------------------------------------|---------------------------------|-------------|
| | Number Outstanding at March 31, 2019 | Range of Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable at March 31, 2019 | Weighted Average Exercise Price | |
| \$ 0.50 | 2,000,000 | 7.87 | \$ 0.50 | 1,444,444 | \$ 0.50 | 0.50 |
| 1.49 | 60,000 | 3.08 | 1.49 | 60,000 | 1.49 | 1.49 |
| 1.00 | 50,000 | 3.59 | 1.00 | 50,000 | 1.00 | 1.00 |
| 1.00 | 80,000 | 1.59 | 1.00 | 80,000 | 1.00 | 1.00 |
| 2.50 | 110,000 | 3.76 | 2.50 | 110,000 | 2.50 | 2.50 |
| 1.00 | 80,000 | 2.08 | 1.00 | 80,000 | 1.00 | 1.00 |
| 2.30 | 20,000 | 4.18 | 2.30 | 20,000 | 2.30 | 2.30 |
| 2.30 | 20,000 | 4.26 | 2.30 | 20,000 | 2.30 | 2.30 |
| 2.80 | 20,000 | 4.33 | 2.80 | 20,000 | 2.80 | 2.80 |
| 2.80 | 20,000 | 4.37 | 2.80 | 13,334 | 2.80 | 2.80 |
| 1.00 | 180,000 | 2.59 | 1.00 | 90,000 | 1.00 | 1.00 |
| 2.75 | 250,000 | 4.76 | 2.75 | 62,500 | 2.75 | 2.75 |
| 2.00 | 1,950,000 | 4.76 | 2.00 | 487,500 | 2.00 | 2.00 |
| \$ 0.50–2.80 | 4,840,000 | 5.80 | \$ 1.35 | 2,537,778 | \$ 1.07 | 1.07 |

Stock options granted to employee and director

Employee and director stock option activities for the three months ended March 31, 2019 were as follows:

| | Number of Options | Weighted Average Exercise Price |
|---------------------------------------|-------------------|---------------------------------|
| Outstanding at December 31, 2018 | 2,280,000 | \$ 0.69 |
| Granted | 2,200,000 | 2.09 |
| Terminated / Exercised | - | - |
| Outstanding at March 31, 2019 | 4,480,000 | \$ 1.37 |
| Options exercisable at March 31, 2019 | 2,274,444 | \$ 1.07 |
| Options expected to vest | 2,205,556 | \$ 1.69 |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 14 – EQUITY (continued)

Options (continued)

Stock options granted to employee and director (continued)

The fair values of options granted to employee and director during the three months ended March 31, 2019 and 2018, respectively, were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|-------------------------|--|---|
| Dividend rate | 0 | 0 |
| Terms (in years) | 5.0 | 5.0 |
| Volatility | 150.61% | 185.28% |
| Risk-free interest rate | 2.37% - 2.49% | 2.25% |

The aggregate fair value of the options granted to employee and director during the three months ended March 31, 2019 was \$5,723,438, of which, \$1,430,860 for the three months ended March 31, 2019 has been reflected as compensation and related benefits on the accompanying unaudited condensed consolidated statements of operations because the options were fully earned and non-cancellable.

The aggregate fair value of the options granted to employee and director during the three months ended March 31, 2018 was \$289,150, of which, \$72,287 has been reflected as compensation and related benefits on the accompanying unaudited condensed consolidated statements of operations because the options were fully earned and non-cancellable.

As of March 31, 2019, the aggregate value of nonvested employee and director options was \$4,987,024, which will be amortized as stock-based compensation expense as the options are vesting, over the remaining 0.83 years.

The aggregate intrinsic values of the employee and director stock options outstanding and the employee and director stock options exercisable at March 31, 2019 was \$18,042,100 and \$9,850,501, respectively.

A summary of the status of the Company's nonvested employee and director stock options granted as of March 31, 2019 and changes during the three months ended March 31, 2019 is presented below:

| | Number of Options | Weighted Average Exercise Price | Grant Date Fair Value |
|--------------------------------|----------------------|---------------------------------------|--------------------------|
| Nonvested at December 31, 2018 | 722,222 | \$ 0.50 | \$ 902,779 |
| Granted | 2,200,000 | 2.09 | 5,723,438 |
| Vested | (716,666) | (1.72) | (1,639,193) |
| Nonvested at March 31, 2019 | <u>2,205,556</u> | <u>\$ 1.69</u> | <u>\$ 4,987,024</u> |

Stock Options Granted to Non-employee

Non-employee stock option activities for the three months ended March 31, 2019 were as follows:

| | Number of Options | Weighted Average Exercise Price |
|---------------------------------------|----------------------|---------------------------------------|
| Outstanding at December 31, 2018 | 560,000 | \$ 1.06 |
| Granted | - | - |
| Exercised | (200,000) | 1.00 |
| Outstanding at March 31, 2019 | <u>360,000</u> | <u>1.10</u> |
| Options exercisable at March 31, 2019 | 263,334 | \$ 1.09 |
| Options expected to vest | 96,666 | \$ 1.12 |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 14 – EQUITY (continued)

Options (continued)

Stock Options Granted to Non-employee (continued)

The fair values of these non-employee options vested in three months ended March 31, 2019 and 2018, and nonvested non-employee options as of March 31, 2019 and 2018, respectively, were estimated using the Black-Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|-------------------------|--|--|
| Dividend rate | 0 | 0 |
| Terms (in years) | 2.59 – 4.50 | 3.0 |
| Volatility | 150.38% – 154.33% | 183.23% - 188.29% |
| Risk-free interest rate | 2.21% - 2.53% | 2.29% - 2.37% |

Stock-based compensation expense associated with stock options granted to non-employee is recognized as the stock options vest. The stock-based compensation expense related to non-employee will fluctuate as the fair value of the Company's common stock fluctuates. Stock-based compensation expense associated with stock options granted to non-employee amounted to \$633,554 and \$210,737 for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, the aggregate value of vested and nonvested non-employee options was \$177,507, which will be amortized as stock-based compensation expense over the remaining 0.38 years.

The aggregate intrinsic values of the non-employee stock options outstanding and the non-employee stock options exercisable at March 31, 2019 was \$1,548,000 and \$1,134,668, respectively.

A summary of the status of the Company's nonvested non-employee stock options granted as of March 31, 2019 and changes during the three months ended March 31, 2019 is presented below:

| | Number of Options | Weighted Average Exercise Price | Fair Value at March 31, 2019 |
|--------------------------------|----------------------|---------------------------------------|---------------------------------|
| Nonvested at December 31, 2018 | 193,333 | \$ 1.12 | |
| Granted | - | - | |
| Vested | (96,667) | (1.12) | |
| Forfeited | - | - | |
| Nonvested at March 31, 2019 | <u>96,666</u> | <u>\$ 1.12</u> | <u>\$ 177,507</u> |

Warrants

Stock warrants activities during the three months ended March 31, 2019 were as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|-----------------------|---------------------------------------|
| Outstanding at December 31, 2018 | 578,891 | \$ 1.28 |
| Issued | - | - |
| Exercised | (578,891) | (1.28) |
| Outstanding and exercisable at March 31, 2019 | <u>-</u> | <u>\$ -</u> |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 15 - STATUTORY RESERVE

Avalon Shanghai and Beijing GenExosome operate in the PRC, are required to reserve 10% of their net profit after income tax, as determined in accordance with the PRC accounting rules and regulations. Appropriation to the statutory reserve by the Company is based on profit arrived at under PRC accounting standards for business enterprises for each year.

The profit arrived at must be set off against any accumulated losses sustained by the Company in prior years, before allocation is made to the statutory reserve. Appropriation to the statutory reserve must be made before distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends. The Company did not make any appropriation to statutory reserve for Avalon Shanghai and Beijing GenExosome during the three months ended March 31, 2019 as they incurred net losses in the period.

NOTE 16 – NONCONTROLLING INTEREST

As of March 31, 2019, Dr. Yu Zhou, director and Co-Chief Executive Officer of GenExosome, who owned 40% of the equity interests of GenExosome, which is not under the Company's control. The following is a summary of noncontrolling interest activities in the three months ended March 31, 2019.

| | <u>Amount</u> |
|---|---------------------|
| Noncontrolling interest at December 31, 2018 | \$ (862,200) |
| Net loss attributable to noncontrolling interest | (99,113) |
| Foreign currency translation adjustment attributable to noncontrolling interest | (1,198) |
| Noncontrolling interest at March 31, 2019 | <u>\$ (962,511)</u> |

NOTE 17 – RESTRICTED NET ASSETS

A portion of the Company's operations are conducted through its PRC subsidiaries, which can only pay dividends out of their retained earnings determined in accordance with the accounting standards and regulations in the PRC and after they have met the PRC requirements for appropriation to statutory reserve. In addition, a portion of the Company's businesses and assets are denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of the Company's PRC subsidiaries to transfer their net assets to the Parent Company through loans, advances or cash dividends.

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of the parent company to be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of this test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of its consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company in the form of loans, advances or cash dividends without the consent of a third party.

The Company's PRC subsidiaries' net assets as of March 31, 2019 and December 31, 2018 did not exceed 25% of the Company's consolidated net assets. Accordingly, Parent Company's condensed financial statements have not been required in accordance with Rule 5-04 and Rule 12-04 of SEC Regulation S-X.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Operating Leases

Beijing GenExosome Beijing Office Lease

In March 2019, Beijing GenExosome signed an agreement to lease its office space under operating lease. Pursuant to the signed lease, the annual rent is RMB 7,000 (approximately \$1,000). The term of this lease is one year commencing on March 15, 2019 and expires on March 14, 2020. For the three months ended March 31, 2019, rent expense related to the lease amounted to \$43.

Future minimum rental payment required under this operating lease is as follows:

| Year Ending March 31: | Amount |
|-----------------------|--------|
| 2020 | \$ 999 |
| Total | \$ 999 |

Avalon Shanghai Office Lease

On January 19, 2017, Avalon Shanghai entered into a lease for office space in Beijing, China, with a third party (the “Beijing Office Lease”). Pursuant to the Beijing Office Lease, the monthly rent is RMB 50,586 (approximately \$7,500) with a required security deposit of RMB 164,764 (approximately \$24,500). In addition, Avalon Shanghai needs to pay monthly maintenance fees of RMB 4,336 (approximately \$600). The term of the Beijing Office Lease is 26 months commencing on January 1, 2017 and expired on February 28, 2019 with two months of free rent in the months of December 2017 and February 2019. On December 27, 2018, Avalon Shanghai signed an extension for the lease with expiration date of February 29, 2020. For the three months ended March 31, 2019 and 2018, rent expense and maintenance fees related to the Beijing Office Lease amounted to approximately \$22,000 and \$26,000, respectively.

Future minimum rental payment required under the Beijing Office Lease is as follows:

| Year Ending March 31: | Amount |
|-----------------------|-----------|
| 2020 | \$ 90,007 |
| Total | \$ 90,007 |

Insurance Premium Financing Agreement

On July 18, 2018, the Company entered into a financing agreement, providing for the issuance of a loan in the principal amount of \$108,528. The term of the loan is for a period of 10 months from the execution of the agreement. The annual interest rate for the loan is 6.9%. All of financed amount is used to pay for Directors & Officers Insurance premium. At March 31, 2019 and December 31, 2018, the outstanding principal balance of the loan and related unpaid interest was \$22,690 and \$45,088, respectively, which was included in the accrued liabilities and other payables on the accompanying consolidated balance sheets.

Equity Investment Commitment

On May 29, 2018, Avalon Shanghai entered into a Joint Venture Agreement with Jiangsu Unicorn Biological Technology Co., Ltd. (“Unicorn”), pursuant to which a company named Epicon Biotech Co., Ltd. (“Epicon”) was formed on August 14, 2018. Epicon is owned 60% by Unicorn and 40% by Avalon Shanghai. Within two years of execution of the Joint Venture Agreement, Unicorn shall invest cash into Epicon in an amount not less than RMB 8,000,000 (approximately \$1.2 million) and the premises of the laboratories of Nanjing Hospital of Chinese Medicine for exclusive use by Epicon, and Avalon Shanghai shall invest cash into Epicon in an amount not less than RMB 10,000,000 (approximately \$1.5 million). Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements. As of March 31, 2019, Avalon Shanghai has contributed RMB 3,000,000 (approximately \$0.4 million) that was included in equity method investment on the accompanying consolidated balance sheets. Avalon Shanghai intends to use its present working capital together with loans/borrowings/equity raise to fund the project cost.

NOTE 18 – COMMITMENTS AND CONTINGENCIES (continued)

Joint Venture – AVAR BioTherapeutics (China) Co. Ltd.

On October 23, 2018, Avactis Biosciences, Inc. (“Avactis”), a wholly-owned subsidiary of the Company, and Arbele Limited (“Arbele”) agreed to the establishment of AVAR BioTherapeutics (China) Co. Ltd. (“AVAR”), a Sino-foreign equity joint venture, pursuant to an Equity Joint Venture Agreement (the “AVAR Agreement”), which will be owned 60% by Avactis and 40% by Arbele. The purpose and business scope of the Joint Venture is to research, develop, produce, sell, distribute and generally commercialize CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy in China. Avactis is required to contribute USD \$10 million (or equivalent in RMB) in cash and/or services, which shall be contributed in tranches based on milestones to be determined jointly by AVAR and Avactis in writing subject to Avactis’ cash reserves. Within 30 days, Arbele shall make contribution of USD \$6.66 million in the form of entering into a License Agreement with AVAR granting AVAR with an exclusive right and license in China to its technology and intellectual property pertaining to CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology and any additional technology developed in the future with terms and conditions to be mutually agreed upon Avactis and AVAR and services.

In addition, Avactis is responsible for:

- Contributing registered capital of RMB 5,000,000 (approximately \$700,000) for working capital purposes as required by local regulation, which is not required to be contributed immediately and will be contributed subject to Avactis’ discretion;
- assist AVAR in setting up its business operations and obtaining all required permits and licenses from the Chinese government;
- assisting AVAR in recruiting, hiring and retaining personnel;
- providing AVAR with access to various hospital networks in China to assist in the testing and commercialization of the CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology in China;
- assisting AVAR in managing the Good Manufacturing Practices (GMP) facility and clinic to be developed by AVAR;
- providing AVAR with advice pertaining to conducting clinicals in China; and
- Within 6 days of signing the AVAR Agreement, Avactis is required to pay to Arbele \$300,000 as a research and development fee with an additional two payments of \$300,000 (for a total of \$900,000) to be paid upon mutually agreed upon milestones.

Under AVAR Agreement, Arbele shall be responsible for the following:

- Entering into a License Agreement with AVAR; and
- Providing AVAR with research and development expertise pertaining to clinical laboratory medicine when hired by AVAR.

As of the date of this report, Avactis has paid \$600,000 to Arbele as research and development fee, AVAR is in process of being established and the License Agreement has not been finalized.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 19 – SEGMENT INFORMATION

For the three months ended March 31, 2019 and 2018, the Company operated in three reportable business segments - (1) the real property operating segment, (2) the medical related consulting services segment, and (3) the performing development services for hospitals and other customers and sales of developed products to hospitals and other customers segment. The Company's reportable segments are strategic business units that offer different services and products. They are managed separately based on the fundamental differences in their operations. Information with respect to these reportable business segments for the three months ended March 31, 2019 and 2018 was as follows:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|--|---|---|
| Revenues | | |
| Real property operating | \$ 266,626 | \$ 296,623 |
| Medical related consulting services – related party | 14,260 | - |
| Development services and sales of developed products | 3,278 | 11,290 |
| | <u>284,164</u> | <u>307,913</u> |
| Depreciation and amortization | | |
| Real property operating | 40,781 | 32,624 |
| Medical related consulting services | 2,940 | 4,006 |
| Development services and sales of developed products | 95,410 | 86,749 |
| | <u>139,131</u> | <u>123,379</u> |
| Interest expense | | |
| Real property operating | 24,658 | 236,986 |
| Medical related consulting services | - | - |
| Development services and sales of developed products | - | - |
| Other (a) | 2,983 | - |
| | <u>27,641</u> | <u>236,986</u> |
| Net loss | | |
| Real property operating | 98,689 | 237,700 |
| Medical related consulting services | 190,070 | 100,132 |
| Development services and sales of developed products | 247,782 | 173,474 |
| Other (a) | 3,968,388 | 1,039,663 |
| | <u>\$ 4,504,929</u> | <u>\$ 1,550,969</u> |

| | March 31, 2019 | December 31, 2018 |
|--|---------------------|----------------------|
| Identifiable long-lived tangible assets at March 31, 2019 and December 31, 2018 | | |
| Real property operating | \$ 7,868,781 | \$ 7,898,224 |
| Medical related consulting services | 4,066 | 6,852 |
| Development services and sales of developed products | 377,112 | 224,364 |
| | <u>\$ 8,249,959</u> | <u>\$ 8,129,440</u> |

| | March 31, 2019 | December 31, 2018 |
|--|---------------------|----------------------|
| Identifiable long-lived tangible assets at March 31, 2019 and December 31, 2018 | | |
| United States | \$ 7,953,632 | \$ 7,898,806 |
| China | 296,327 | 230,634 |
| | <u>\$ 8,249,959</u> | <u>\$ 8,129,440</u> |

(a) The Company does not allocate any interest expense and general and administrative expense of its being a public company activities to its reportable segments as these activities are managed at a corporate level.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 20 - CONCENTRATIONS

Customers

The following table sets forth information as to each customer that accounted for 10% or more of the Company's revenues for the three months ended March 31, 2019 and 2018.

| Customer | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|----------|---|---|
| A | 29% | 27% |
| B | 19% | 18% |
| C | 15% | 14% |

* Less than 10%

Two customers, whose outstanding receivable accounted for 10% or more of the Company's total outstanding accounts receivable and accounts receivable – related party and tenants receivable at March 31, 2019, accounted for 46.6% of the Company's total outstanding accounts receivable and accounts receivable – related party and tenants receivable at March 31, 2018.

Two customers, whose outstanding receivable accounted for 10% or more of the Company's total outstanding accounts receivable and accounts receivable – related party and tenants receivable at December 31, 2018, accounted for 56.0% of the Company's total outstanding accounts receivable and accounts receivable – related party and tenants receivable at December 31, 2018.

Suppliers

No supplier accounted for 10% or more of the Company's purchase during the three months ended March 31, 2019 and 2018.

Three suppliers, whose outstanding payable accounted for 10% or more of the Company's total outstanding accounts payable at March 31, 2019, accounted for 91.9% of the Company's total outstanding accounts payable at March 31, 2019.

One supplier, whose outstanding payable accounted for 10% or more of the Company's total outstanding accounts payable at December 31, 2018, accounted for 95.5% of the Company's total outstanding accounts payable at December 31, 2018.

Concentrations of Credit Risk

At March 31, 2019 and December 31, 2018, cash balances in the PRC are \$814,166 and \$1,216,485, respectively, are uninsured. The Company has not experienced any losses in PRC bank accounts and believes it is not exposed to any risks on its cash in PRC bank accounts.

The Company maintains its cash in United States bank and financial institution deposits that at times may exceed federally insured limits. At March 31, 2019 and December 31, 2018, the Company's cash balances in United States bank accounts had approximately \$374,000 and \$239,000 in excess of the federally-insured limits, respectively. The Company has not experienced any losses in its United States bank accounts through and as of the date of this report.

NOTE 21 – SUBSEQUENT EVENTS

Common Shares Issued for Services

On April 1, 2019, pursuant to service agreements, the Company issued an aggregate of 120,812 shares of common stock for professional services rendered. These shares were valued at \$313,800, the fair market values on the grant dates using the reported closing share prices on the dates of grant, and the Company reduced accrued liabilities of \$313,800.

Appointment of Officers

On April 5, 2019, Yue "Charles" Li and Meng Li were appointed to the Board of Directors of the Company to serve as directors of the Company.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 21 – SUBSEQUENT EVENTS (continued)

Units Sold for Cash

In April 2019, the Company entered into a purchase agreement with several institutional investors for the purchase of 1,714,288 units in a registered direct offering, for gross proceeds of approximately \$6 million before placement agent fees and other offering expenses payable by the Company. Each unit was sold at a public offering price of \$3.50 and consists of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$3.50. The warrants are exercisable at any time for a five-year period. The Company received net cash proceeds of approximately \$5.1 million, net of cash paid for placement agent fees and other offering expenses.

Repayment for Loan Payable

On April 30, 2019, the Company repaid loan payable in the principal amount of \$1,000,000.

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

The following discussion and analysis of our financial condition and results of operations for the three months ended March 31, 2019 and 2018 should be read in conjunction with our unaudited condensed consolidated financial statements and related notes to those unaudited condensed consolidated financial statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Special Note Regarding Forward-Looking Statements and Business sections in our Form 10-K as filed with the Securities and Exchange Commission on March 26, 2019. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

Unless otherwise indicated, references to the “Company,” “us” or “we” refer to Avalon GloboCare Corp. and its consolidated subsidiaries.

Overview

We are dedicated to advancing cell-based technologies and therapeutics, as well as empowering high-impact biomedical innovations to accelerate their clinical applications. Our ecosystem covers the areas of exosome technology (including liquid biopsy and regenerative therapeutics) and cellular immunotherapy. We plan to integrate technologies and services through joint venture and subsidiary structures that bring shareholder value both in the short term, through operational entities and long term, through biomedical innovation development, such as our recent joint venture for the advancement of exosome isolation systems and related products.

In addition, we are engaged in the development of exosome technology to improve the diagnosis and management of diseases. Exosomes are tiny, subcellular, membrane-bound vesicles 30-150 nm in diameter that are released by almost all cell types and can carry membrane and cellular proteins, as well as genetic materials that are representative of the cell of origin. Profiling various bio-molecules in exosomes may serve as useful biomarkers for a wide variety of diseases. Our isolation system is designed to be used by researchers for biomarker discovery, clinical diagnostic development, and advancement of targeted therapies. Currently, isolation systems and service are available to isolate exosomes or extract exosomal RNA/protein from serum/plasma, urine and saliva samples. We are seeking to decode proteomic and genomic alterations underlying a wide-range of pathologies, thus allowing for the introduction of novel non-invasive “liquid biopsies”. Our mission is focused on diagnostic advancements in the fields of oncology, infectious diseases and fibrotic diseases, and the discovery of disease-specific exosomes to provide the disease origin insight necessary to enable personalized clinical management.

We currently generate revenue by selling exosome isolation systems in China and the United States through our joint venture GenExosome Technologies, Inc. In addition, we provide medical related consulting services in advanced areas of immunotherapy and second opinion/referral services through our wholly-owned subsidiary Avalon (Shanghai) Healthcare Technology Co., Ltd., or Avalon Shanghai. We also own and operate commercial real estate in New Jersey, where we are headquartered.

Further, we produce revenue by performing development services for hospitals and other customers and sales of developed products to hospitals and other customers through GenExosome Technologies Inc. (“GenExosome”) and Beijing Jieteng (GenExosome) Biotech Co., Ltd. (“Beijing GenExosome”).

We also own and operate rental real property in New Jersey.

On May 29, 2018, Avalon Shanghai entered into a Joint Venture Agreement with Jiangsu Unicorn Biological Technology Co., Ltd., or Unicorn, pursuant to which a company named Epicon Biotech Co., Ltd. (“Epicon”) was formed on August 14, 2018. Epicon is owned 60% by Unicorn and 40% by Avalon Shanghai. Within two years of execution of the Joint Venture Agreement, Unicorn shall invest cash into Epicon in an amount not less than RMB 8,000,000 (approximately \$1.2 million) and the premises of the laboratories of Nanjing Hospital of Chinese Medicine for exclusive use by Epicon, and Avalon Shanghai shall invest cash into Epicon in an amount not less than RMB 10,000,000 (approximately \$1.5 million). The board of directors of Epicon shall consist of five members with Unicorn appointing three members and Avalon Shanghai appointing two members. Epicon will be focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements. As of the date hereof, Unicorn has invested the premises of the laboratories of Nanjing Hospital of Chinese Medicine and Avalon Shanghai has contributed RMB 3,000,000 (approximately \$0.4 million). Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements.

On July 18, 2018, the Company formed a wholly owned subsidiary, Avactis Biosciences, Inc., a Nevada corporation, which will be focused on accelerating commercial activities related to Chimeric Antigen Receptor (CAR)-T technologies. The subsidiary is designed to integrate and optimize our global scientific and clinical resources to further advance the use of CAR-T to treat certain cancers.

On July 30, 2018, the Company signed a Letter of Intent with Arbele Limited, a Hong Kong company (“Arbele”) for a proposed strategic partnership agreement. The purpose of the proposed transaction is to form a joint venture company, AVAR BioTherapeutics (China) Co. Ltd., to develop, manufacture, and commercializing CAR-T immunotherapy for treating cancer patients in China, utilizing intellectual property from Arbele and the clinical platform of the LuDaopei Medical Group in China. The Company paid a \$100,000 fee to Arbele for a five-month exclusive right to complete the definitive agreements for the transaction. On October 23, 2018, Avactis Biosciences, Inc. (“Avactis”), a wholly-owned subsidiary of the Company, and Arbele agreed to the establishment of AVAR BioTherapeutics (China) Co. Ltd. (“AVAR”), a Sino-foreign equity joint venture, pursuant to an Equity Joint Venture Agreement (the “AVAR Agreement”), which will be owned 60% by Avactis and 40% by Arbele. The purpose and business scope of the Joint Venture is to research, develop, produce, sell, distribute and generally commercialize CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy in China. Avactis is required to contribute USD \$10 million (or equivalent in RMB) in cash and/or services, which shall be contributed in tranches based on milestones to be determined jointly by AVAR and Avactis in writing subject to Avactis’ cash reserves. Within 30 days, Arbele shall make contribution of USD \$6.66 million in the form of entering into a License Agreement with AVAR granting AVAR with an exclusive right and license in China to its technology and intellectual property pertaining to CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology and any additional technology developed in the future with terms and conditions to be mutually agreed upon Avactis and AVAR and services.

In addition, Avactis is responsible for:

- Contributing registered capital of RMB 5,000,000 (approximately \$700,000) for working capital purposes as required by local regulation, which is not required to be contributed immediately and will be contributed subject to Avactis’ discretion;
- assist AVAR in setting up its business operations and obtaining all required permits and licenses from the Chinese government;
- assisting AVAR in recruiting, hiring and retaining personnel;
- providing AVAR with access to various hospital networks in China to assist in the testing and commercialization of the CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology in China;
- assisting AVAR in managing the Good Manufacturing Practices (GMP) facility and clinic to be developed by AVAR;
- providing AVAR with advice pertaining to conducting clinicals in China; and
- Within 6 days of signing the AVAR Agreement, Avactis is required to pay to Arbele \$300,000 as a research and development fee with an additional two payments of \$300,000 (for a total of \$900,000) to be paid upon mutually agreed upon milestones.

Under AVAR Agreement, Arbele shall be responsible for the following:

- Entering into a License Agreement with AVAR; and
- Providing AVAR with research and development expertise pertaining to clinical laboratory medicine when hired by AVAR.

As of May 2019, Avactis has paid \$600,000 to Arbele as research and development fee, AVAR is in process of being established and the License Agreement has not been finalized.

AVAR’s Board of Directors shall consist of three directors, of which two (2) directors shall be appointed by Avactis who shall initially be David Jin, M.D., Ph.D and one other director to be determined by Avactis and agreed to by Arbele. One director shall be appointed by Arbele who shall initially be John Luk, Dr. Med.Sc., EMBA.

On August 6, 2018, the Company entered into a strategic partnership agreement with Weill Cornell’s cGMP Cellular Therapy Facility and Laboratory for Advanced Cellular Engineering headed by Dr. Yen-Michael Hsu. This strategic partnership aims to co-develop bio-production and standardization procedures in procurement, storage, processing, clinical study protocols, and bio-banking for Chimeric Antigen Receptor (CAR)-T therapy, in accordance with the Foundation of Accreditation for Cellular Therapy (FACT) and American Association of Blood Banks (AABB) standards. This partnership also includes a CAR-T education program to support and foster collaborative research and training programs for scientists and clinicians between Weill Cornell and Hebei Yanda LuDaopei Hospital, which is our main affiliated clinical facility as well as the world’s single largest medical institution in CAR-T therapy.

The value of the Renminbi (“RMB”), the main currency used in China, fluctuates and is affected by, among other things, changes in China’s political and economic conditions. The conversion of RMB into foreign currencies such as the U.S. dollar have generally been based on rates set by the People’s Bank of China, which are set daily based on the previous day’s interbank foreign exchange market rates and current exchange rates on the world financial markets.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to the allowance for doubtful accounts, reserve for obsolete inventory, the useful life of property and equipment and investment in real estate and intangible assets, assumptions used in assessing impairment of long-term assets, valuation of deferred tax assets and the associated valuation allowances, and valuation of stock-based compensation.

We base our estimates on historical experience and on various other assumptions that we 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. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Effective January 1, 2018, we began recognizing revenue under Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), using the modified retrospective transition method. The impact of adopting the new revenue standard was not material to our consolidated financial statements and there was no adjustment to beginning accumulated deficit on January 1, 2018. The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606’s definition of a “distinct” good or service (or bundle of goods or services) if both of the following criteria are met:

The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct).

The entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Types of revenue:

- Rental revenue from leasing commercial property under operating leases with terms of generally three years or more.
- Service fees under consulting agreements with related parties to provide medical related consulting services to our clients. We are paid for our services by our clients pursuant to the terms of the written consulting agreements. Each contract calls for a fixed payment.
- Service fees under agreements to perform development services for hospitals and other customers. We do not perform contracts that are contingent upon successful results.
- Sales of developed products to hospitals and other customers.

Revenue recognition criteria:

- We recognize rental revenue from our commercial leases on a straight-line basis over the life of the lease including rent holidays, if any. Straight-line rent receivable consists of the difference between the tenants' rents calculated on a straight-line basis from the date of lease commencement over the remaining terms of the related leases and the tenants' actual rents due under the lease agreements and is included in tenants receivable in the accompanying consolidated balance sheets. Revenues associated with operating expense recoveries are recognized in the period in which the expenses are incurred.
- We recognize revenue by providing medical related consulting services under written service contracts with our customers. Revenue related to our service offerings is recognized as the services are performed.
- Revenue from development services performed under written contracts is recognized as services are provided.
- Revenue from sales of developed items to hospitals and other customers is recognized when items are shipped to customers and titles are transferred.

We do not offer promotional payments, customer coupons, rebates or other cash redemption offers to our customers.

Income Taxes

The company has not provided an Income Tax Provision (China, nor the United States) for the first quarter of 2019 due to losses being reported for both jurisdictions.

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

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

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

Stock-based Compensation

Stock based compensation is accounted for based on the requirements of the Share-Based Payment topic of Accounting Standards Codification (“ASC”) 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award. The Accounting Standards Codification also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is recognized over the period of services or the vesting period, whichever is applicable. Until the measurement date is reached, the total amount of compensation expense remains uncertain. Our compensation expense for unvested options to non-employees is re-measured at each balance sheet date and is being amortized over the vesting period of the options.

Non-controlling Interest

As of March 31, 2019, Dr. Yu Zhou, director and co- chief executive officer of GenExosome, who owned 40% of the equity interests of GenExosome, which is not under our control.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Comparison of Results of Operations for the Three Months Ended March 31, 2019 and 2018

Revenues

For the three months ended March 31, 2019, we had real property rental revenue of \$266,626, as compared to \$296,623 for the three months ended March 31, 2018, a decrease of \$29,997, or 10.1%, which was primarily attributable to the loss of a tenant in December 2018.

For the three months ended March 31, 2019, we had medical related consulting services revenue from related party of \$14,260. We did not have any medical related consulting revenue during the three months ended March 31, 2018.

For the three months ended March 31, 2019, we had revenue from contract services through performing development services for hospitals and other customers and sales of developed products to hospitals and other customers of \$3,278, as compared to \$11,290 for the three months ended March 31, 2018, a decrease of \$8,012, or 71.0%, which was primarily attributable to business fluctuation period over period. We expect that our revenue from contract services through performing development services for hospitals and other customers and sales of developed products to hospitals and other customers will have a modest increase in the near future.

Costs and Expenses

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

For the three months ended March 31, 2019, our real property operating expenses amounted to \$230,759, as compared to \$210,274 for the three months ended March 31, 2018, an increase of \$20,485, or 9.7%. The increase was mainly due to an increase in real property management fee of approximately \$15,000 and an increase in depreciation from building improvement of approximately \$8,000, offset by a decrease in other miscellaneous items of approximately \$3,000.

Costs of medical related consulting services include the cost of internal labor and related benefits, travel expenses related to medical related consulting services, subcontractor costs, other related consulting costs, and other overhead costs. Subcontractor costs were costs related to medical related consulting services incurred by our subcontractor, such as medical professional’s compensation and travel costs.

For the three months ended March 31, 2019, costs of medical related consulting services amounted to \$13,091.

Costs of development services and sales of developed products include inventory costs, materials and supplies costs, internal labor and related benefits, depreciation, other overhead costs and shipping and handling costs incurred.

For the three months ended March 31, 2019, costs of development services for hospitals and other customers and sales of developed products to hospitals and other customers amounted to \$30,307, as compared to \$16,520 for the three months ended March 31, 2018, an increase of \$13,787, or 83.5%. The increase was mainly due to (i) the increase in depreciation related to our newly purchased manufacturing equipment which we started depreciating from the fourth quarter of 2018 and the first quarter of 2019; (ii) the slight increase in labor costs.

Real Property Operating Income

Our real property operating income for the three months ended March 31, 2019 was \$35,867, representing a decrease of \$50,482, or 58.5% as compared to \$86,349 for the three months ended March 31, 2018. The decrease was mainly attributable the decrease in rental revenue resulting from the loss of a tenant and the increase in real property operating expenses as described above.

Gross Profit from Medical Related Consulting Services and Gross Margin

Gross profit from medical related consulting services for the three months ended March 31, 2019 was \$1,169, with a gross margin of 8.2%.

Gross loss from Development Services and Sales of Developed Products and Gross Margin

Our gross loss from development services and sales of developed products for the three months ended March 31, 2019 was \$27,029, as compared to \$5,230 for the three months ended March 31, 2018, a change of \$21,799, or 416.8%.

Gross margin decreased to (824.6)% for the three months ended March 31, 2019 from gross margin of (46.3)% for the three months ended March 31, 2018. The significant decrease in gross margin for the three months ended March 31, 2019 as compared to the corresponding 2018 period were primarily attributable to: (i) the reduced scale of operations resulting from lower revenue, which is reflected in the allocation of fixed costs, mainly consisting of depreciation and labor costs, to cost of development services and sales of developed products; (ii) the overhead costs were allocated to less production volume due to the reduced operations during the first quarter of 2019. We expect that our gross margin from this segment will continue to be negative, and we can only generate a positive gross margin if we can increase our production, thereby enabling us to operate more efficiently. Although we are selling our development services and developed products at prices which are less than our cost, we believe that, in long-term, we will be able to operate this segment profitable because we are optimistic about the long-term prospect of exosome-based diagnostic and therapeutic industry and the market for our products. However, we cannot assure you that we will be able to generate sufficient sales in this segment to operate profitably.

Other Operating Expenses

For the three months ended March 31, 2019 and 2018, other operating expenses consisted of the following:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|-----------------------------------|---|---|
| Advertising expenses | \$ 244,600 | \$ - |
| Compensation and related benefits | 2,100,155 | 538,814 |
| Professional fees | 1,468,226 | 571,772 |
| Research and development | 152,460 | - |
| Amortization | 81,893 | 81,893 |
| Travel and entertainment | 187,436 | 57,948 |
| Other general and administrative | 240,550 | 145,411 |
| | <u>\$ 4,475,320</u> | <u>\$ 1,395,838</u> |

- For the three months ended March 31, 2019, we incurred advertising expenses of \$244,600 to publicize and enhance our image. We did not incur any advertising expenses in the three months ended March 31, 2018.
- For the three months ended March 31, 2019, compensation and related benefits increased by \$1,561,341, or 289.8%, as compared to the three months ended March 31, 2018. The significant increase was primarily attributable to an increase in stock-based compensation of approximately \$1,323,000 which reflected the value of options granted and vested to our management in the first quarter of 2019, and an increase in salaries and related benefits of approximately \$239,000 due to an increase in salary for our three key officers of approximately \$131,000 and an increase in cash compensation for our directors of approximately \$108,000.

- Professional fees primarily consisted of accounting fees, audit fees, legal service fees, consulting fees, investor relations service charges and other fees incurred for service related to being a public company. For the three months ended March 31, 2019, professional fees increased by \$896,454, or 156.8%, as compared to the three months ended March 31, 2018. The increase was mainly attributable to an increase in consulting fees of approximately \$843,000 due to the increase in use of consulting services providers and an increase in other miscellaneous items of approximately \$53,000 reflecting our business expansion.
- For the three months ended March 31, 2019, research and development expenses increased by \$152,460, or 100.0%, as compared to the three months ended March 31, 2018. We spent \$152,460 in research and development activities related to the development of proprietary diagnostic and therapeutic products leveraging exosome technology and optimization of Exosome Isolation Systems in the first quarter of 2019. We did not incur any research and development activity in the first quarter of 2018.
- Amortization expense from intangible assets remained materially consistent with prior year comparable period.
- For the three months ended March 31, 2019, travel and entertainment expense increased by \$129,488, or 223.5%, as compared to the three months ended March 31, 2018. The increase was mainly due to increased business travel activities incurred and increased entertainment expenditure in order to enhance our visibility in the first quarter of 2019.
- Other general and administrative expenses mainly consisted of academic sponsorship, Directors and Officers Insurance, and other miscellaneous items. For the three months ended March 31, 2019, other general and administrative expenses increased by \$95,139, or 65.4%, as compared to the three months ended March 31, 2018. The increase was primarily due to an increase in academic sponsorship incurred of approximately \$30,000, an increase in Directors and Officers Insurance of approximately \$34,000, and an increase in other miscellaneous items of approximately \$31,000 resulting from our business expansion.

Loss from Operations

As a result of the foregoing, for the three months ended March 31, 2019, loss from operations amounted to \$4,465,313, as compared to \$1,314,719 for the three months ended March 31, 2018, a change of \$3,150,594, or 239.6%.

Other Income (Expense)

Other income (expense) mainly includes interest expense and loss from equity-method investment.

Other expense, net, totaled \$39,616 for the three months ended March 31, 2019, as compared to \$236,250 for the three months ended March 31, 2018, a change of \$196,634, which was primarily attributable to a decrease in interest expense of approximately \$209,000, offset by an increase in loss from equity-method investment of approximately \$13,000.

Income Taxes

We did not have any income taxes expense for the three months ended March 31, 2019 and 2018 since we incurred losses in the periods.

Net Loss

As a result of the factors described above, our net loss was \$4,504,929 for the three months ended March 31, 2019, as compared to \$1,550,969 for the three months ended March 31, 2018, a change of \$2,953,960 or 190.5%.

Net Loss Attributable to Avalon GloboCare Corp. Common Shareholders

The net loss attributable to Avalon GloboCare Corp. common shareholders was \$4,405,816 or \$(0.06) per share (basic and diluted) for the three months ended March 31, 2019, as compared with \$1,481,579, or \$(0.02) per share (basic and diluted) for the three months ended March 31, 2018, a change of \$2,924,237 or 197.4%.

Foreign Currency Translation Adjustment

Our reporting currency is the U.S. dollar. The functional currency of our parent company, AHS, Avalon (BVI) Ltd. (dormant, is in process of being dissolved), Avalon RT 9, GenExosome, and Avactis is the U.S. dollar and the functional currency of Avalon Shanghai and Beijing GenExosome, is the Chinese Renminbi (“RMB”). The financial statements of our subsidiaries whose functional currency is the RMB are translated to U.S. dollars using period end rates of exchange for assets and liabilities, average rate of exchange for revenue, costs, and expenses and cash flows, and at historical exchange rates for equity. Net gains and losses resulting from foreign exchange transactions are included in the results of operations. As a result of foreign currency translations, which are a non-cash adjustment, we reported a foreign currency translation gain of \$43,482 and \$52,838 for the three months ended March 31, 2019 and 2018, respectively. This non-cash gain had the effect of decreasing our reported comprehensive loss.

Comprehensive Loss

As a result of our foreign currency translation adjustment, we had comprehensive loss of \$4,461,447 and \$1,498,131 for the three months ended March 31, 2019 and 2018, respectively.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. At March 31, 2019 and December 31, 2018, we had cash balance of approximately \$1,769,000 and \$2,252,000, respectively. These funds are kept in financial institutions located as follows:

| Country: | March 31, 2019 | | December 31, 2018 | |
|---------------|---------------------|---------------|---------------------|---------------|
| United States | \$ 955,125 | 54.0% | \$ 1,035,802 | 46.0% |
| China | 814,166 | 46.0% | 1,216,485 | 54.0% |
| Total cash | <u>\$ 1,769,291</u> | <u>100.0%</u> | <u>\$ 2,252,287</u> | <u>100.0%</u> |

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

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

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

The following table sets forth a summary of changes in our working capital from December 31, 2018 to March 31, 2019:

| | March 31, 2019 | December 31, 2018 | December 31, 2018 to March 31, 2019 | |
|---------------------------|-------------------|----------------------|--|----------------------|
| | | | Change | Percentage Change |
| Working capital: | | | | |
| Total current assets | \$ 2,923,402 | \$ 3,625,432 | \$ (702,030) | (19.4)% |
| Total current liabilities | 2,663,753 | 1,141,720 | 1,522,033 | 133.3% |
| Working capital | <u>\$ 259,649</u> | <u>\$ 2,483,712</u> | <u>\$ (2,224,063)</u> | <u>(89.5)%</u> |

Our working capital decreased by \$2,224,063 to working capital of \$259,649 at March 31, 2019 from working capital of \$2,483,712 at December 31, 2018. The decrease in working capital was primarily attributable to an increase in a loan payable – current portion of approximately \$1,000,000, a decrease in cash of approximately \$483,000, a decrease in prepaid expenses – related parties of approximately \$34,000, a decrease in prepaid expenses and other current assets of approximately \$197,000, an increase in accounts payable of approximately \$34,000, an increase in accrued liabilities and other payables of approximately \$432,000, an increase in accrued liabilities and other payables – related parties of approximately \$34,000, an increase in interest payable of approximately \$25,000, and an increase in VAT and other taxes payable of approximately \$21,000, offset by a decrease in advance from customer – related party of approximately \$15,000 and a decrease in deferred rental income of approximately \$11,000.

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

Cash Flows for the Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

The following summarizes the key components of our cash flows for the three months ended March 31, 2019 and 2018:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Net cash used in operating activities | \$ (1,422,311) | \$ (416,234) |
| Net cash used in investing activities | (87,371) | (7,852) |
| Net cash provided by (used in) financing activities | 1,000,000 | (522,500) |
| Effect of exchange rate on cash | 26,686 | 45,209 |
| Net decrease in cash | <u>\$ (482,996)</u> | <u>\$ (901,377)</u> |

Net cash flow used in operating activities for the three months ended March 31, 2019 was \$1,422,311, which primarily reflected our net loss of approximately \$4,505,000, and the changes in operating assets and liabilities, primarily consisting of a decrease in advance from customer – related party of approximately \$15,000, and a decrease in deferred rental income of approximately \$11,000, offset by a decrease in prepaid expenses – related parties of approximately \$35,000, a decrease in prepaid expenses and other current assets of approximately \$198,000, an increase in accounts payable of approximately \$34,000, an increase in accrued liabilities and other payables of approximately \$347,000, an increase in accrued liabilities and other payables – related parties of approximately \$34,000, an increase in interest payable of approximately \$25,000, and an increase in VAT and other taxes payable of approximately \$21,000, and the add-back of non-cash items consisting of depreciation and amortization of approximately \$139,000, stock-based compensation expense of approximately \$2,273,000, and loss on equity method investment of approximately \$13,000.

Net cash flow used in operating activities for the three months ended March 31, 2018 was \$416,234, which primarily reflected our net loss of approximately \$1,551,000, and the changes in operating assets and liabilities, primarily consisting of a decrease in accrued liabilities and other payables – related parties of approximately \$14,000, and a decrease in tenants' security deposit of approximately \$19,000, offset by a decrease in prepaid expenses and other current assets of approximately \$76,000, an increase in accrued liabilities and other payables of approximately \$178,000, an increase in interest payable of approximately \$237,000, an increase in VAT and other taxes payable of approximately \$31,000, and the add-back of non-cash items consisting of depreciation and amortization expense of approximately \$123,000, and stock-based compensation and service fees of approximately \$526,000.

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

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

Net cash flow used in investing activities was \$87,371 for the three months ended March 31, 2019 as compared to \$7,852 for the three months ended March 31, 2018. During the three months ended March 31, 2019, we made payment for purchase of property and equipment of approximately \$76,000 and made payment for improvement of commercial real estate of approximately \$11,000. During the three months ended March 31, 2018, we made payment for purchase of property and equipment of approximately \$8,000.

Net cash flow provided by financing activities was \$1,000,000 for the three months ended March 31, 2019 as compared to net cash flow used in financing activities of \$522,500 for the three months ended March 31, 2018. During the three months ended March 31, 2019, we received proceeds from note payable – related party of \$1,000,000. During the three months ended March 31, 2018, we spent cash of approximately \$523,000 on repurchase of our common stock.

Our capital requirements for the next twelve months primarily relate to working capital requirements, including salaries, fees related to third parties' professional services, reduction of accrued liabilities, repay loan upon maturity, mergers, acquisitions and the development of business opportunities. These uses of cash will depend on numerous factors including our sales and other revenues, and our ability to control costs. All funds received have been expended in the furtherance of growing the business. The following trends are reasonably likely to result in a material decrease in our liquidity over the near to long term:

- an increase in working capital requirements to finance our current business;
- repayment for outstanding borrowings;
- the use of capital for mergers, acquisitions and the development of business opportunities;
- addition of administrative personnel as the business grows; and
- the cost of being a public company.

In April 2019, we received net proceeds of approximately \$5.1 million from equity offering. Currently, we use our cash to support our operations and to provide working capital for our ongoing operations and obligations. We believe that it is not likely that we will not meet our anticipated cash requirements for the next twelve months.

Although we estimate that our current cash will be sufficient to meet our anticipated cash requirements for the next twelve months, we need to either borrow funds or raise additional capital through equity or debt financings in order to support our future mergers or acquisitions and the development of our business opportunities. However, we cannot be certain that such capital (from our stockholders or third parties) will be available to us or whether such capital will be available on terms that are acceptable to us. Any such financing likely would be dilutive to existing stockholders and could result in significant financial operating covenants that would negatively impact our business.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows. The following tables summarize our contractual obligations as of March 31, 2019, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

| Contractual obligations: | Payments Due by Period | | | | |
|--|------------------------|---------------------|---------------------|---------------------|-------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
| Office leases commitment | \$ 91,006 | \$ 91,006 | \$ - | \$ - | \$ - |
| Insurance premium financing agreement | 22,690 | 22,690 | - | - | - |
| Acquisition consideration | 100,000 | 100,000 | - | - | - |
| Loan payable (principal) (1) | 1,000,000 | 1,000,000 | - | - | - |
| Note payable – related party (principal) | 1,000,000 | - | 1,000,000 | - | - |
| Accrued interest | 101,944 | 101,944 | - | - | - |
| Equity investment obligation | 1,042,892 | 521,446 | 521,446 | - | - |
| Joint venture commitment | 11,044,923 | - | 6,044,923 | 5,000,000 | - |
| Total | \$ 14,403,455 | \$ 1,837,086 | \$ 7,566,369 | \$ 5,000,000 | \$ - |

(1) The outstanding principal of 1,000,000 was repaid in full on April 30, 2019.

Off-balance Sheet Arrangements

We presently do not have off-balance sheet arrangements.

Foreign Currency Exchange Rate Risk

A portion of our operations are in China. Thus, a portion of our revenues and operating results may be impacted by exchange rate fluctuations between RMB and US dollars. For the three months ended March 31, 2019 and 2018, we had unrealized foreign currency translation gain of approximately \$43,000 and \$53,000, respectively, because of changes in the exchange rate.

Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended (“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 under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

In connection with the preparation of the quarterly report on Form 10-Q for the quarter ended September 30, 2018, our management, including our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures, which are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, management concluded that our internal control over financial reporting were not effective as of March 31, 2019 due to the significant deficiencies caused by the lack of segregation of duties resulting from our small size, which we previously reported in our Form 10-K Annual Report for the year ended December 31, 2018 (“2018 10-K”), has not yet been remediated.

Changes in Internal Controls Over Financial Reporting

There were no changes (including corrective actions with regard to material weakness) in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to ordinary routine litigation incidental to our normal business operations. We are not currently a party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business, operating results, cash flows or financial condition.

ITEM 1A. RISK FACTORS

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

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

Common Shares Issued for Services

On April 1, 2019, pursuant to service agreements, we issued an aggregate of 120,812 shares of common stock for professional services rendered. These shares were valued at \$313,800, the fair market values on the grant dates using the reported closing share prices on the dates of grant, and we reduced accrued liabilities of \$313,800.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

Note Payable from Related Party

On March 18, 2019, the Company issued Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors, a Promissory Note in the principal amount of \$1,000,000 ("Promissory Note") in consideration of cash in the amount of \$1,000,000. The Promissory Note accrues interest at the rate of 5% per annum and matures March 19, 2022.

As of March 31, 2019, the outstanding principal balance of the note and related accrued and unpaid interest for the note was \$1,000,000 and \$1,944, respectively.

Appointment of Officers

On April 5, 2019, Yue "Charles" Li and Meng Li were appointed to the Board of Directors of the Company to serve as directors of the Company.

Shares transferred to Wenzhao Lu

On March 3, 2017, (i) the Company entered into and closed a Subscription Agreement with an accredited investor (the “March 2017 Accredited Investor”) pursuant to which the March 2017 Accredited Investor purchased 3,000,000 shares of the Company’s common stock (“March 2017 Shares”) for a purchase price of \$3,000,000 (the “Purchase Price”) and (ii) the Company, Avalon (Shanghai) Healthcare Technology Co., Ltd., a wholly owned subsidiary of the Company (“Avalon Shanghai”), Beijing DOING Biomedical Technology Co., Ltd. (“DOING”), an unaffiliated third party, and the March 2017 Accredited Investor entered into a Share Subscription Agreement whereby DOING paid the Purchase Price to Avalon Shanghai on behalf of the March 2017 Accredited Investor. In connection with the Share Subscription Agreement, the March 2017 Accredited Investor agreed to transfer the March 2017 Shares to DOING upon DOING completing the registration of the investment with the Beijing Commerce Commission (“BCC”) and obtaining an Enterprise Overseas Investment Certificate (the “Investment Certificate”) from BCC. If DOING failed to obtain the Investment Certificate by March 2018, then Avalon Shanghai was required to pay \$3,000,000 plus interest of 20% per annum to DOING upon the request of DOING (the “BCC Repayment Obligation”). In addition, on March 3, 2017 Wenzhao Lu, a director and shareholder of the Company, and DOING entered into a Warranty Agreement pursuant to which, Mr. Lu agreed to, among other items, acquire the March 2017 Shares from DOING at a per share price of \$1.20 in the event DOING was unable to obtain the Investment Certificate.

On April 23, 2018, the Company, Avalon Shanghai, DOING and March 2017 Accredited Investor entered into a Supplementary Agreement Related to Share Subscription pursuant to which Avalon Shanghai paid RMB 8,256,000 (approximately \$1.3 million based on the exchange rate on April 23, 2018) to DOING representing one-third of the DOING Investment plus 20% interest for the one-third DOING Investment resulting in a reduction in the March 2017 Shares by one-third to 2,000,000 shares. Further, the parties agreed that the BCC Repayment Obligation was extended to July 31, 2018.

On August 8, 2018, in an effort to preserve the Company’s cash balance and to fulfill Mr. Lu’s obligations under the Warranty Agreement, Mr. Lu, through a company controlled and wholly owned by Mr. Lu, agreed to acquire the remaining 2,000,000 March 2017 Shares from DOING for a purchase price of \$2,000,000. The agreement was effective upon the date the March 2017 Shares were transferred to Mr. Lu, which occurred on April 18, 2019.

Scientific and Clinical Advisory Board Appointment

The Company has appointed Robert S. Langer, Sc.D., to its Scientific and Clinical Advisory Board. Dr. Langer is the David H. Koch Institute Professor at the Massachusetts Institute of Technology. Dr. Langer is a world-renowned scientist and entrepreneur with a wide range of experience and expertise in the healthcare, biotechnology and pharmaceutical industries.

Intellectual Property Update

The Company, through its joint venture GenExosome Technologies, Inc., has acquired and is in the process of modifying applications for four patents in China with related trademarks. The Company is in the process of applying for those same patents and trademarks in the United States and is also in the process of developing additional patents and related intellectual property. The Company owns and controls a variety of trade secrets, confidential information, trademarks, trade names, copyrights, and other intellectual property rights that, in the aggregate, are of material importance to the Company’s business. The Company considers its trademarks, service marks, and other intellectual property to be proprietary, and relies on a combination of copyright, trademark, trade secret, non-disclosure, and contractual safeguards to protect its intellectual property rights.

Current patent applications in China are as follows.

| | |
|--|---|
| Application of an Exosomal MicroRNA in plasma as biomarker to diagnosis LIVER CANCER | Patent application number: CN 2016 1 0675107.5 |
| Clinical application of circulating exosome carried miRNA-33b in the diagnosis of liver cancer | Patent application number: CN 2016 1 0675110.7 |
| Exosomes carrying miR-185 and application thereof | Patent application number: CN 2018 1 0444172.6 |
| A novel exosome-based therapeutics against proliferative oral diseases | Patent application number: CN 2017 1 0330835.7 |

Public Offering

In April 2019, the Company entered into a purchase agreement with several institutional investors for the purchase of 1,714,288 units in a registered direct offering, for gross proceeds of approximately \$6 million before placement agent fees and other offering expenses payable by the Company. Each unit was sold at a public offering price of \$3.50 and consists of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$3.50. The warrants are exercisable at any time for a five-year period. The Company received net cash proceeds of approximately \$5.1 million, net of cash paid for placement agent fees and other offering expenses.

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

| Exhibit Number | Description |
|-----------------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018) |
| 3.2 | Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018) |
| 4.1 | Form of Subscription Agreement by and between Avalon GloboCare Corp. and the December 2016 Accredited Investors (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2016) |
| 4.2 † | Stock Option issued to Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017) |
| 4.3 | Form of Subscription Agreement by and between Avalon GloboCare Corp. and the March 2017 Accredited Investor (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.4 | Share Subscription Agreement between Avalon GloboCare Corp., Avalon (Shanghai) Healthcare Technology Co., Ltd., Beijing DOING Biomedical Technology Co., Ltd. and Daron Liang (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.5 | Warranty Agreement between Lu Wenzhao and Beijing DOING Biomedical Technology Co., Ltd. (incorporated by reference to Exhibit 4.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.6 | Form of Subscription Agreement between Avalon GloboCare Corp. and the October 2017 Accredited Investors (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017) |
| 4.7 | Form of Warrant to Boustead Securities, LLC in connection with the private placements (incorporated by reference to Exhibit 4.8 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 27, 2018) |
| 4.8 | Form of Warrant (April 2019) (Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2019) |
| 10.1 | Share Exchange Agreement dated as of October 19, 2016 by and among Avalon Healthcare System, Inc., the shareholders of Avalon Healthcare System, Inc. and Avalon GloboCare Corp. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2016) |
| 10.2 † | Executive Employment Agreement, effective December 1, 2016, by and between Avalon GloboCare Corp. and David Jin (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2016) |
| 10.3 | Agreement of Sale by and between Freehold Craig Road Partnership, as Seller, and Avalon GloboCare Corp., as Buyer dated as of December 22, 2016 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2016) |
| 10.4 † | Executive Employment Agreement by and between Avalon (Shanghai) Healthcare Technology Ltd. and Meng Li dated January 11, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2017) |
| 10.5 † | Executive Retention Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017) |
| 10.6 † | Indemnification Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017) |
| 10.7 † | Director Agreement by and between Avalon GloboCare Corp. and Steven P. Sukel dated April 28, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2017) |
| 10.8 † | Director Agreement by and between Avalon GloboCare Corp. and Yancen Lu dated April 28, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2017) |

- 10.9 [Consultation Service Contract between Daopei Investment Management \(Shanghai\) Co., Ltd. and Avalon HealthCare System Inc. dated April 1, 2016 \(English translation\) \(incorporated by reference to Exhibit 10.8 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017\)](#)
- 10.10 [Consultation Service Contract between Hebei Yanda Ludaopei Hospital Co., Ltd and Avalon HealthCare System Inc. dated April 1, 2016 \(English translation\) \(incorporated by reference to Exhibit 10.9 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017\)](#)
- 10.11 [Consultation Service Contract between Nanshan Memorial Stem Cell Biotechnology Co., Ltd. and Avalon HealthCare System Inc. dated April 1, 2016 \(English translation\) \(incorporated by reference to Exhibit 10.10 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017\)](#)
- 10.12 [Loan Agreement between Lotus Capital Overseas Limited and Avalon \(Shanghai\) Healthcare Technology Co., Ltd. dated April 19, 2017 \(English translation\) \(incorporated by reference to Exhibit 10.12 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2017\)](#)
- 10.13 [Securities Purchase Agreement between Avalon GloboCare Corp. and GenExosome Technologies Inc. dated October 25, 2017 \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017\)](#)
- 10.14 [Asset Purchase Agreement between GenExosome Technologies Inc. and Yu Zhou dated October 25, 2017 \(incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017\)](#)
- 10.15 [Stock Purchase Agreement between GenExosome Technologies Inc., Beijing Jieteng \(GenExosome\) Biotech Co. Ltd. and Yu Zhou dated October 25, 2017 \(incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017\)](#)
- 10.16 † [Executive Retention Agreement between GenExosome Technologies Inc. and Yu Zhou dated October 25, 2017 \(incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017\)](#)
- 10.17 [Invention Assignment, Confidentiality, Non-Compete and Non-Solicit Agreement between GenExosome Technologies Inc. and Yu Zhou dated October 25, 2017 \(incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017\)](#)
- 10.18 † [Director Agreement by and between Avalon GloboCare Corp. and Wilbert J. Tauzin II dated November 1, 2017 \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2017\)](#)
- 10.19 [Agreement between Avalon GloboCare Corp. and Tauzin Consultants, LLC dated November 1, 2017 \(incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2017\)](#)
- 10.20 † [Letter Agreement by and between Avalon GloboCare Corp. and David Jin dated April 3, 2018 \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 4, 2018\)](#)
- 10.21 † [Letter Agreement by and between Avalon GloboCare Corp. and Meng Li dated April 3, 2018 \(incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 4, 2018\)](#)
- 10.22 [Advisory Service Contract between Ludaopei Hematology Research Institute Co., Ltd. and Avalon \(Shanghai\) Healthcare Technology Co., Ltd. dated April 1, 2018 \(English translation\) \(incorporated by reference to that Form S-1 Registration Statement filed with the Securities and Exchange Commission on April 19, 2018\)](#)
- 10.23 [Form of Subscription Agreement by and between Avalon GloboCare Corp. and the April 2018 Accredited Investors \(incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2018\)](#)
- 10.24 [Supplementary Agreement Related to Share Subscription by and between Avalon GloboCare Corp., Avalon \(Shanghai\) Healthcare Technology Co., Ltd., Beijing DOING Biomedical Technology Co., Ltd. and Daron Liang dated April 23, 2018 \(English translation\) \(incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018\)](#)
- 10.25 [Loan Extension Agreement between Lotus Capital Overseas Limited and Avalon \(Shanghai\) Healthcare Technology Co., Ltd. dated May 3, 2018 \(English translation\) \(incorporated by reference to Exhibit 10.18 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 11, 2018\)](#)
- 10.26 † [Director Agreement by and between Avalon GloboCare Corp. and Tevi Troy dated June 4, 2018 \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2018\)](#)
- 10.27 [Joint Venture Agreement by and between Avalon \(Shanghai\) Healthcare Technology Co., Ltd. and Jiangsu Unicorn Biological Technology Co., Ltd. dated May 29, 2018 \(English translation\) \(incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2018\)](#)

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| 10.28 † | Director Agreement by and between Avalon GloboCare Corp. and William Stilley, III dated July 5, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 10, 2018) |
| 10.29 † | Director Agreement by and between Avalon GloboCare Corp. and Steven A. Sanders dated July 30, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 31, 2018) |
| 10.30 | Loan Extension Agreement between Lotus Capital Overseas Limited and Avalon (Shanghai) Healthcare Technology Co., Ltd. dated August 3, 2018 (English translation) (incorporated by reference to Exhibit 10.30 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 7, 2018) |
| 10.31 | Strategic Partnership Agreement between Avalon GloboCare Corp. and Weill Cornell Medical College of Cornell University dated August 6, 2018.(incorporated by reference to Exhibit 10.31 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 7, 2018) |
| 10.32 | Equity Joint Venture Agreement by and between Avactis Biosciences, Inc., a wholly-owned subsidiary of Avalon GloboCare Corp., and Arbele Limited for the establishment of AVAR (China) BioTherapeutics Ltd. dated October 23, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2018) |
| 10.33 | Letter Agreement by and between Avalon GloboCare Corp. and David Jin dated January 3, 2019 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019) |
| 10.34 | Letter Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated January 3, 2019 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019) |
| 10.35 | Letter Agreement by and between Avalon (Shanghai) Healthcare Technology Co. Ltd. and Meng Li dated January 3, 2019 (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019) |
| 10.36 | Promissory Note issued to Daniel Lu dated March 18, 2019 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2019) |
| 10.37† | Director Agreement by and between Avalon GloboCare Corp. and Meng Li dated April 5, 2019 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 8, 2019) |
| 10.38† | Director Agreement by and between Avalon GloboCare Corp. and Yue “Charles” Li dated April 5, 2019 (Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 8, 2019) |
| | Form of Securities Purchase Agreement dated April 25, 2019 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2019) |
| 21.1 | List of Subsidiaries (incorporated by reference to Exhibit 21.1 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 20, 2018) |
| 31.1* | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act |
| 31.2* | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act |
| 32.1* | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act |
| 101.INS* | XBRL INSTANCE DOCUMENT |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT |

* Filed herewith

† Management contract or compensatory plan or arrangement.

SIGNATURES

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

AVALON GLOBOCARE CORP.
(Registrant)

Date: May 14, 2019

By: /s/ David K. Jin
David K. Jin
Chief Executive Officer, President and Director (Principal Executive Officer)

Date: May 14, 2019

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

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David K. Jin, certify that:

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

Date: May 14, 2019

By: /s/ David K. Jin
David K. Jin
Chief Executive Officer,
President and Director
(Principal Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Luisa Ingargiola, certify that:

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

Date: May 14, 2019

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

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

The undersigned, David K. Jin and Luisa Ingargiola, in their capacities as Chief Executive Officer and Chief Financial Officer, respectively, of Avalon GloboCare Corp. (the "Registrant") do each hereby certify with respect to the Quarterly Report on Form 10-Q of the Registrant for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that, to the best of their knowledge:

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

Date: May 14, 2019

/s/ David K. Jin
David K. Jin
Chief Executive Officer,
President and Director
(Principal Executive Officer)

Date: May 14, 2019

/s/ Luisa Ingargiola
Luisa Ingargiola
Chief Financial Officer
(Principal Financial and Accounting Officer)