

HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

7107 Industrial Road
Florence, KY 41042
(800)748-7001

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support@healthwarehouse.com

SIC Code: 5912 - Drugstores and Proprietary Stores

Quarterly Report

For the quarter ended June 30, 2023

As of June 30, 2023, the number of shares outstanding of our Common Stock was 54,342,592.

As of March 31, 2023, the number of shares outstanding of our Common Stock was 54,201,416.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934).

Yes ☐ No ☒

Indicate by check mark if whether the company's shell status has changed since the previous reporting period.

Yes ☐ No ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period.

Yes ☐ No ☒

We previously were a shell company, therefore the exemption offered pursuant to Rule 144 is not available. Anyone who purchased securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction.

HEALTHWAREHOUSE.COM, INC.

Quarterly Report

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PART A – GENERAL COMPANY INFORMATION

1) Name of the issuer and its predecessors (if any) and address of issuer's principal executive offices:

HealthWarehouse.com, Inc. (the "Company", "Issuer" or "HEWA").
Formerly Ion Networks, Inc., formed on August 5, 1998.
Name changed to Clacendix, Inc. on January 3, 2008.
Name changed to HealthWarehouse.com, Inc. on July 31, 2009.

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2) Shares outstanding.

Security information as of June 30, 2023:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	175,000,000	54,342,592	14,345,245	850	244
Preferred Stock – Series B	790,000	517,359	-0-	2	2
Preferred Stock – Series C	10,000	6,500	-0-	3	3

On April 14, 2017, HEWA filed a Form 15 with the Securities and Exchange Commission terminating the registration of its Common Stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. As of this date, the Company has no plans to reregister the common stock under the Securities Exchange Act of 1934.

In October 2020, at the annual meeting of stockholders of the Company, the stockholders approved an amendment to the Company's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

Number of Shares outstanding as of January 1, 2023		Opening Balance							
		Common			54,060,240				
		Preferred Series B			517,359				
		Preferred Series C			6,500				
Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued (\$ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type
2/8/23	New	35,294	Common	\$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
2/8/23	New	35,294	Common	\$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
2/8/23	New	35,294	Common	\$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
2/8/23	New	35,294	Common	\$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	\$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	\$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	\$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	\$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
Number of Shares outstanding as of June 30, 2023		Ending Balance							
		Common			54,342,592				
		Preferred Series B			517,359				
		Preferred Series C			6,500				

All shares issued in the transactions detailed above, contain a legend that states that the shares were issued in a transaction not registered under the Securities Act of 1933 and may not be transferred unless registered or pursuant to an exemption therefrom.

Please see Footnote 10 - Subsequent Events to the Company's condensed consolidated financial statements below for information related to the Company's issuance of common stock related to stock-based compensation for directors.

Debt Securities, Including Promissory and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of Note Issuance	Outstanding Balance 6/30/2023	Principal Amount at Issuance (\$)	Interest Accrued (\$) as of 6/30/2023	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	\$ 1,675,000	\$ 1,675,000	\$ 29,313	4/30/2024	Convertible to shares of common stock at \$0.12 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	\$ 525,000	\$ 525,000	\$ 9,187	4/30/2024	Convertible to shares of common stock at \$0.14 per share	Robert B. Ford; Thomas J. Daley 2019 Trust, Thomas J. Daley, Trustee; John Pauly; Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Dwayne Stephens	Repay existing indebtedness and General working capital purposes.

Please see Footnote 5 – Notes Payable to the Company’s unaudited condensed consolidated financial statements for the six months ended June 30, 2023 for more information.

3) Interim Financial Statements

- a) The following financial statements were prepared in accordance with U.S. GAAP and include the following: Condensed Consolidated Balance Sheets – as of June 30, 2023 (unaudited) and December 31, 2022; Unaudited Condensed Consolidated Statements of Operations – Three and Six Months Ended June 30, 2023 and 2022; Unaudited Condensed Consolidated Statements of Changes in Stockholders’ Deficiency – Three and Six Months Ended June 30, 2023 and 2022; Unaudited Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2023 and 2022; and Notes to the Unaudited Condensed Consolidated Financial Statements.
- b) The financial statements for this reporting period were prepared by Daniel Seliga, Chief Financial Officer of the Company.

See PART II – UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS below.

4) Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of results of operations and financial condition is based upon, and should be read in conjunction with, our unaudited consolidated financial statements and accompanying notes thereto, included elsewhere in this Quarterly Report. This discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward looking statements. Reference is made to “Information Regarding Forward-Looking Statements” for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

Overview

HealthWarehouse.com, Inc., a technology company with a focus on healthcare e-commerce, sells and delivers prescription and over-the-counter medications to all 50 states as an Approved Digital Pharmacy through the National Association of Boards of Pharmacy (NABP). HealthWarehouse.com provides a platform focused on increasing access and reducing costs of healthcare products for consumers and business partners nationwide.

The Company sells directly to individual consumers who purchase prescription medications and over-the-counter products over the Internet. HealthWarehouse.com is currently one of 74 National Association of Boards of Pharmacy (“NABP”) accredited digital pharmacies. In addition, the Company also provides fulfillment services of prescription medication to customers of other healthcare providers including telemedicine and online services companies.

Consumers who pay out of pocket for their prescriptions include those:

- with no insurance coverage;
- with high insurance deductibles or copays;
- with Medicare Part D plans with high deductibles;
- with Health Savings Accounts (HSA) or Flexible Savings Accounts (FSA);
- with insurance through the Affordable Care Act (ACA) with high deductibles; and
- with drug exclusions and quantity restrictions placed by insurance companies.

The Company’s objective is to utilize its proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. The Company has become known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medication. The Company was named by Money.com as one of the five best online pharmacies of 2020. This popular personal finance website recognized that the Company has earned a reputation for being one of the most affordable pharmaceutical options and highlighted the Company’s outstanding customer service.

Results of Operations

For the Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

	For three months ended June 30, 2023	% of Net Sales	For three months ended June 30, 2022	% of Net Sales
<i>In thousands</i>				
Net sales	\$ 5,327	100.0%	\$ 4,200	100.0%
Cost of sales	2,172	40.8%	1,306	31.1%
Gross profit	3,155	59.2%	2,894	68.9%
Selling, general & administrative	3,594	67.5%	3,145	74.9%
Loss from operations	(439)	(8.3%)	(251)	(6.0%)
Interest expense, net	(38)	(0.7%)	(42)	(1.0%)
Net loss	\$ (477)	(9.0%)	\$ (293)	(7.0%)

Net Sales

For the three months ended June 30, 2023	% Change	\$ Change	For the three months ended June 30, 2022
<i>In thousands</i>			
\$5,327	26.8%	\$1,127	\$4,200

Net sales for the three months ended June 30, 2023 increased to \$5.3 million from \$4.2 million for the three months ended June 30, 2022, an increase of \$1.1 million, or 26.8%. Prescription sales were \$4.5 million for the three months ended June 30, 2023, as compared to \$3.4 million for the three months ended June 30, 2022, an increase of \$1.1 million, or 31.8%. These increases were due to growth in partner services revenue and our direct-to-consumer (B2C) business. Over-the-counter net sales increased by 10.6% from \$678,000 in the

three months ended June 30, 2022 to \$750,000 in the three months ended June 30, 2023, primarily due to higher marketplace and partner services sales.

Cost of Sales and Gross Margin

	For three months ended	%	\$	For three months ended
	June 30, 2023	Change	Change	June 30, 2022
<i>In thousands</i>				
Cost of sales	\$2,172	66.3%	866	\$1,306
Gross margin \$	\$3,155	9.0%	261	\$2,894
Gross margin %	59.2%	-9.7%		68.9%

Cost of sales were \$2.2 million for the three months ended June 30, 2023 as compared to \$1.3 million for the three months ended June 30, 2022, an increase of \$866,000 or 66.3%, primarily as a result of an increase in order volume and higher costs for DTC prescription business products. Gross profit for the three months ended June 30, 2023 was \$3.2 million, a \$261,000 or 9.0% increase when compared to the same period in 2022, as a result of the increase in sales volume. Gross margin percentage decreased from 68.9% for the three months ended June 30, 2022 to 59.2% for the three months ended June 30, 2023, as a result of (i) the lower margin partner services business (relative to the direct-to-consumer business) representing a higher percentage of total sales and (ii) decreased year-over-year margins in the DTC prescription business primarily due to higher prescription brand drug sales, offset by higher year-over-year margins in the partner services business.

Selling, General and Administrative Expenses

	For three months ended	%	\$	For three months ended
	June 30, 2023	Change	Change	June 30, 2022
<i>In thousands</i>				
Selling, general and administrative expenses	\$3,594	14.3%	\$449	\$3,145
% of sales		67.5%		74.9%

Selling, general and administrative expenses totaled \$3.6 million for the three months ended June 30, 2023 compared to \$3.1 million for the three months ended June 30, 2022, an increase of \$449,000, or 14.3%. For the three months ended June 30, 2023, expense increases included: (a) a \$297,000 increase in shipping and shipping supplies expenses; (b) a \$179,000 increase in salaries and related expenses, primarily in pharmacy and customer support; (c) a 38,000 increase in stock-based compensation expense; (d) a \$30,000 increase in telephone expense and (e) a \$20,000 increase in software expense. Those increases were offset by a \$182,000 reduction in advertising and marketing expenses. Approximately \$191,000 of the increase in shipping and salary expenses can be attributed to the operational disruption and additional costs incurred related to the implementation of new software.

Other Income and Expense

Net interest expense decreased from \$42,000 in the three months ended June 30, 2022 to \$38,000 in the three months ended June 30, 2023, a decrease of \$4,000, or 9.1%, primarily due to an decrease in debt discount amortization and an increase in interest income, offset by higher interest paid on the convertible notes. Interest income increased from \$1,000 in the three months ended June 30, 2022 to \$3,000 for the three months ended June 30, 2023 as higher returns were realized on interest bearing money market accounts, offset by lower invested balances.

For the Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

	For six months ended June 30, 2023	% of Net Sales	For six months ended June 30, 2022	% of Net Sales
<i>In thousands</i>				
Net sales	\$ 10,604	100.0%	\$ 8,515	100.0%
Cost of sales	4,313	40.7%	2,771	32.5%
Gross profit	6,291	59.3%	5,744	67.5%
Selling, general & administrative	7,034	66.3%	6,167	72.4%
Loss from operations	(743)	(7.0%)	(423)	(4.9%)
Interest expense, net	(82)	(0.8%)	(85)	(1.0%)
Net loss	<u>\$ (825)</u>	<u>(7.8%)</u>	<u>\$ (508)</u>	<u>(5.9%)</u>

Net Sales

For the six months ended June 30, 2023	% Change	\$ Change	For the six months ended June 30, 2022
<i>In thousands</i>			
\$10,604	24.5%	\$2,089	\$8,515

Net sales for the six months ended June 30, 2023 increased to \$10.6 million from \$8.5 million for the six months ended June 30, 2022, an increase of \$2.1 million, or 24.5%. Prescription sales were \$8.8 million for the six months ended June 30, 2023, as compared to \$6.8 million for the six months ended June 30, 2022, an increase of \$2.0 million, or 28.7%. These increases were primarily due to growth in partner services revenue and our direct-to-consumer (B2C) business. Over-the-counter net sales increased by 11.1% from \$1.5 million in the three months ended June 30, 2022 to \$1.7 million in the three months ended June 30, 2023, primarily due to higher partner services and marketplace sales.

Cost of Sales and Gross Margin

	For six months ended June 30, 2023	% Change	\$ Change	For six months ended June 30, 2022
<i>In thousands</i>				
Cost of sales	\$4,313	55.7%	1,543	\$2,770
Gross margin \$	\$6,291	9.5%	547	\$5,744
Gross margin %	59.3%	-8.1%		67.5%

Cost of sales were \$4.3 million for the six months ended June 30, 2023 as compared to \$2.8 million for the six months ended June 30, 2022, an increase of \$1.5 million or 55.7%, primarily as a result of an increase in order volume and higher costs for DTC prescription business products. Gross profit for the six months ended June 30, 2023 was \$6.3 million, a \$547,000 or 10.0% increase when compared to the same period in 2022, as a result of the increase in sales volume. Gross margin percentage decreased from 67.5% for the six months ended June 30, 2022 to 59.3% for the six months ended June 30, 2023, as a result of (i) the lower margin partner services business (relative to the direct-to-consumer business) representing a higher percentage of total sales and (ii) decreased year-over-year margins in the DTC prescription business due to higher prescription brand drug sales, offset by higher year-over-year margins in the partner services business.

Selling, General and Administrative Expenses

	For six months ended June 30, 2023	% Change	\$ Change	For six months ended June 30, 2022
<i>In thousands</i>				
Selling, general and administrative expenses	\$7,034	14.1%	\$867	\$6,167
% of sales	66.3%			72.4%

Selling, general and administrative expenses totaled \$7.0 million for the six months ended June 30, 2023 compared to \$6.2 million for the six months ended June 30, 2022, an increase of \$867,000, or 14.1%. For the six months ended June 30, 2023, expense increases included: (a) a \$475,000 increase in shipping and shipping supplies expenses; (b) a \$341,000 increase in salaries and related expenses, primarily in pharmacy and customer support; (c) a \$59,000 increase in stock-based compensation expense; (d) a \$57,000 increase in telephone expense and (e) a \$51,000 increase in software expense. Those increases were offset by a \$248,000 reduction in advertising and marketing expenses. Approximately \$191,000 of the increase in shipping and salary expenses can be attributed to the operational disruption and additional costs incurred related to the implementation of software.

Other Income and Expense

Net interest expense decreased from \$85,000 in the six months ended June 30, 2022 to \$82,000 in the six months ended June 30, 2023, a decrease of \$3,000, or 2.9%, primarily due a decrease in debt discount amortization and an increase in interest income, offset by an increase in interest paid on the convertible notes. Interest income increased from \$1,000 in the six months ended June 30, 2022 to \$8,000 for the six months ended June 30, 2023 as higher returns were realized on interest bearing money market accounts, offset by lower invested balances.

Adjusted EBITDA

We believe Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”), a financial measure not included in accounting principles generally accepted in the United States of America (“U.S. GAAP”), is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-U.S. GAAP financial measures to supplement their U.S. GAAP results; and
- Adjusted EBITDA is useful because it excludes non-cash charges, such as depreciation and amortization, stock-based compensation and one-time charges, which the amount of such expense in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between period

We use Adjusted EBITDA in conjunction with traditional U.S. GAAP measures as part of our overall assessment of our performance, to evaluate the effectiveness of our business strategies and to communicate with our lenders, stockholders and board of directors concerning our financial performance.

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with U.S. GAAP. There are limitations to using non-U.S. GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of these limitations,

presentation of our financial statements in accordance with U.S. GAAP and reconciliation of Adjusted EBITDA to the most directly comparable U.S. GAAP measure, specifically net loss.

The following provides a reconciliation of net loss to Adjusted EBITDA:

	For three months ended June 30,		For six months ended June 30,	
	2023	2022	2023	2022
	<i>In thousands</i>			
Net loss	\$ (477)	\$ (293)	\$ (825)	\$ (508)
Interest expense	38	42	82	85
Depreciation and amortization	52	33	95	66
EBITDA (non-GAAP)	(387)	(218)	(648)	(357)
Adjustments to EBITDA:				
Stock-based compensation	235	197	458	400
Adjusted EBITDA	<u>\$ (152)</u>	<u>\$ (21)</u>	<u>\$ (190)</u>	<u>\$ 43</u>

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities in which we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Impact of Inflation

During the six months ended June 30, 2023, the Company has experienced price inflation for shipping and packaging supplies and shipping costs, and to a less extent certain prescription and over-the-counter products due to supply shortages. The Company was able to pass along a portion of the price increases to our partner services customers and to a lesser extent to our direct-to-consumer customers. Management believes that inflation has not had a material impact on the Company's results of operations for the six months ended June 30, 2023 and 2022. The Company cannot assure you that future inflation will not have an adverse impact on its operating results and financial condition.

Liquidity and Capital Resources

The Company's working capital deficiency was \$4.9 million and the stockholder deficiency was \$3.6 million as of June 30, 2023. For the six months ended June 30, 2023, the Company had a net loss of \$825,000 and used net cash from operating activities of \$363,000. As of June 30, 2023, the Company had cash and cash equivalents totaling \$380,000. The year-to-date results were negatively impacted due to operational disruption and additional costs incurred related to the implementation of new pharmacy software, shipping software and order operating system. The software conversion impacted processing times which in turn reduced revenue and gross profit for the period. In addition, the Company incurred higher shipping (expedited shipping) and salary expenses (reduced efficiencies and higher overtime hours). The impact on the net cash from operating activities is estimated to be in excess of \$246,000.

In 2022, the Company extended the maturity date of the Convertible Notes from April 30, 2023 to April 30, 2024. As of June 30, 2023, the Convertible notes are classified as current liabilities resulting in an increase in the working capital deficiency. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2.6 million to the holders of the Series B Preferred shares. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company's discretion. While the maturity date of the Convertible Notes is April 30, 2024, the Company believes that it can generate positive cash from operations, as it has accomplished in prior years, by ceasing the discretionary expenditures and

have sufficient cash and cash equivalents to repay the Convertible Note balance by the maturity date, in the event that the Convertible Notes are not converted into shares of common stock before that date. As such, the Company believes that its current financial resources are sufficient to satisfy the Company's estimated liquidity needs for at least twelve months from the date of issuance of these consolidated financial statements.

As of June 30, 2023 and December 31, 2022, the Company had cash on hand of \$380,000 and \$1.0 million, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the six months ended June 30, 2023, cash flows included net cash used in operating activities of \$363,000. This amount included a decrease in operating cash related to a net loss of \$825,000, offset by aggregate non-cash adjustments of \$1,039,000 (including the reclassification of accounts receivable to other assets) and aggregate cash used by changes in operating assets and liabilities of \$577,000 (primarily a result of an increase in accounts receivables and accrued expenses and the reclassification of accounts receivable offset by an increase in accounts payable and a reduction in prepaid expenses and inventories.). For the six months ended June 30, 2022, cash flows included net cash used in operating activities of \$521,000. This amount included a decrease in operating cash related to net loss of \$507,000, offset by aggregate non-cash adjustments of \$528,000 and aggregate cash used by changes in operating assets and liabilities of \$541,000 (primarily a result of an increase in accounts receivable and inventories and an increase in prepaid expenses).

For the six months ended June 30, 2023, net cash used in investing activities was \$298,000 primarily related to software development costs to be capitalized and computer equipment. For the six months ended June 30, 2022, the Company used \$118,000 in investing activities which were primarily related to software development costs to be capitalized.

For the six months ended June 30, 2023 and 2022, the Company had no financing activities.

Changes in Financial Condition

The Company's total assets were \$3.6 million at June 30, 2023, an decrease of \$339,000 from \$3.9 million at December 31, 2022, primarily due to decreases in cash on hand, accounts receivable, inventory, prepaid expenses and operating lease right-of-use asset, offset by an increase in other assets, property and equipment and software development costs. Total liabilities were \$6.6 million at June 30, 2023, an increase of \$199,000 from the balance at December 31, 2022 of \$6.4 million primarily due to an increase in dividend payable, accounts payable and sales tax payable offset by a reduction in accrued wages. Stockholder deficiency was \$3.6 million as of June 30, 2023, an increase of \$538,000 from the balance at December 31, 2022 of \$3.0 million due to the net loss.

5) Legal proceedings: In the ordinary course of business, we may become subject to lawsuits and other claims and proceedings that might arise from litigation matters or regulatory audits. Such matters are subject to uncertainty and outcomes are often not predictable with assurance. Our management does not presently expect that any current outstanding matters will have a material adverse effect on the Company's consolidated financial condition or consolidated results of operations. We are not currently involved in any pending or threatened material litigation or other material legal proceedings nor have we been made aware of any penalties from regulatory audits, except as described below.

On March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges the Company conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys' fees. After retaining local

counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company's motions. On July 10, 2023, the Company filed a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company's motions. The Company plans to file a reply to the Plaintiff's opposition on August 14, 2023, at which time the matter will be fully briefed and before the Court. The Company intends to contest this matter vigorously.

6) Defaults upon senior securities. None.

7) Other information. None.

8) Exhibits. None.

9) Issuer Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Peters, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 10, 2023 /s/ Joseph B. Peters

Joseph B. Peters
Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Daniel Seliga, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.
2. Based on my knowledge, this disclosure statement 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; and
3. Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 10, 2023 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II – UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 380,320	\$ 1,041,766
Accounts receivable	716,351	847,566
Inventories	459,345	502,482
Prepaid expenses and other current assets	84,997	174,134
Total current assets	1,641,013	2,565,948
Property and equipment, net	1,018,002	937,036
Software development costs, net	394,446	272,000
Other Assets	427,726	-
Operating lease right of use asset	147,064	192,530
Total assets	<u>\$ 3,628,251</u>	<u>\$ 3,967,514</u>
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	\$ 979,898	\$ 807,860
Accrued dividends	2,566,747	2,395,631
Accrued expenses and other current liabilities	643,556	753,423
Operating lease liability	103,409	98,274
Convertible notes payable	2,200,000	-
Total current liabilities	<u>6,493,610</u>	<u>4,055,188</u>
Long term liabilities:		
Operating lease liability, non-current	56,169	108,776
Convertible notes payable, net of debt discount	-	2,187,010
Total long term liabilities	<u>56,169</u>	<u>2,295,786</u>
Total liabilities	<u>6,549,779</u>	<u>6,350,974</u>
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value \$0.001 per share; 10,000 shares designated Series C: issued and outstanding 6,500 as of June 30, 2023 and December 31, 2022 (aggregate liquidation preference of \$650,000 as of June 30, 2023 and December 31, 2022)	650,000	650,000
Stockholders' deficiency:		
Preferred stock – par value \$0.001 per share; authorized 1,000,000 shares; issued and outstanding as of June 30, 2023 and December 31, 2022 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of June 30, 2023 and December 31, 2022 (aggregate liquidation preference of \$7,455,790 and \$7,284,673 as of June 30, 2023 and December 31, 2022, respectively)	517	517
Common stock – par value \$0.001 per share; 175,000,000 shares authorized as of June 30, 2023 and December 31, 2022; 55,521,804 and 55,239,452 shares issued and 54,342,592 and 54,060,240 shares outstanding as of June 30, 2023 and December 31, 2022, respectively	55,522	55,240
Additional paid-in capital	37,179,719	36,721,616
Treasury stock, at cost, 1,179,212 shares as of June 30, 2023 and December 31, 2022	(3,419,715)	(3,419,715)
Accumulated deficit	(37,387,571)	(36,391,118)
Total stockholders' deficiency	<u>(3,571,528)</u>	<u>(3,033,460)</u>
Total liabilities and stockholders' deficiency	<u>\$ 3,628,251</u>	<u>\$ 3,967,514</u>

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Total net sales	\$ 5,327,353	\$ 4,199,832	\$ 10,603,531	\$ 8,514,812
Cost of sales	<u>2,172,330</u>	<u>1,305,702</u>	<u>4,312,778</u>	<u>2,770,347</u>
Gross profit	3,155,023	2,894,130	6,290,753	5,744,465
Selling, general and administrative expenses	<u>3,593,753</u>	<u>3,145,329</u>	<u>7,033,946</u>	<u>6,167,350</u>
Loss from operations	(438,730)	(251,199)	(743,193)	(422,885)
Interest expense, net	<u>(38,487)</u>	<u>(42,325)</u>	<u>(82,144)</u>	<u>(84,627)</u>
Net loss	(477,217)	(293,524)	(825,337)	(507,512)
Preferred stock:				
Series B convertible preferred stock contractual dividends	<u>(85,557)</u>	<u>(85,558)</u>	<u>(171,115)</u>	<u>(171,116)</u>
Net loss attributable to common stockholders	<u>\$ (562,774)</u>	<u>\$ (379,082)</u>	<u>\$ (996,452)</u>	<u>\$ (678,628)</u>
Per share data:				
Net loss – basic and diluted	\$ (0.01)	(0.01)	\$ (0.01)	(0.01)
Series B convertible preferred stock contractual dividends	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>
Net loss attributable to common stockholders - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>54,316,218</u>	<u>52,704,784</u>	<u>54,228,715</u>	<u>52,428,995</u>

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE QUARTERS ENDED JUNE 30, 2023 AND 2022

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount		
Balances, January 1, 2022	9,000	\$ 900,000	517,359	\$ 517	53,207,687	\$ 53,207	\$ 35,677,572	1,179,212	\$ (3,419,715)	\$ (35,096,856)	\$ (2,785,275)
Stock-based compensation, including options	-	-	-	-	150,000	150	375,670	-	-	-	375,820
Common shares issued for previously accrued compensation	-	-	-	-	150,000	150	23,850	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(171,116)	(171,116)
Conversion of Series C Preferred shares to Common shares	(2,500)	(250,000)			1,470,589	1,471	248,529				250,000
Exercise of warrants into common stock	-	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	(507,512)	(507,512)
Balances, June 30, 2022	<u>6,500</u>	<u>\$ 650,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>54,978,276</u>	<u>\$ 54,978</u>	<u>\$ 36,325,621</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (35,775,484)</u>	<u>\$ (2,814,083)</u>
Balances, January 1, 2023	6,500	\$ 650,000	517,359	\$ 517	55,239,452	\$ 55,240	\$ 36,721,616	1,179,212	\$ (3,419,715)	\$ (36,391,118)	\$ (3,033,460)
Stock-based compensation, including options	-	-	-	-	141,176	141	434,244	-	-	-	434,385
Common Shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(171,115)	(171,115)
Net loss	-	-	-	-	-	-	-	-	-	(825,337)	(825,337)
Balances, June 30, 2023	<u>6,500</u>	<u>\$ 650,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>55,521,804</u>	<u>\$ 55,522</u>	<u>\$ 37,179,719</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (37,387,571)</u>	<u>\$ (3,571,528)</u>

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount		
Balances, April 1, 2022	9,000	\$ 900,000	517,359	\$ 517	53,357,687	\$ 53,357	\$ 35,880,313	1,179,212	\$ (3,419,715)	\$ (35,396,402)	\$ (2,881,930)
Stock-based compensation	-	-	-	-	-	-	172,929	-	-	-	172,929
Common shares issued for previously accrued compensation	-	-	-	-	150,000	150	23,850	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Conversion of Series C Preferred shares to Common shares	(2,500)	(250,000)	-	-	1,470,589	1,471	248,529	-	-	-	250,000
Net loss	-	-	-	-	-	-	-	-	-	(293,524)	(293,524)
Balances, June 30, 2022	<u>6,500</u>	<u>\$ 650,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>54,978,276</u>	<u>\$ 54,978</u>	<u>\$ 36,325,621</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (35,775,484)</u>	<u>\$ (2,814,083)</u>
Balances, April 1, 2023	6,500	\$ 650,000	517,359	\$ 517	55,380,628	\$ 55,381	\$ 36,944,449	1,179,212	\$ (3,419,715)	\$ (36,824,796)	\$ (3,244,164)
Stock-based compensation	-	-	-	-	-	-	211,411	-	-	-	211,411
Common Shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Net loss	-	-	-	-	-	-	-	-	-	(477,217)	(477,217)
Balances, June 30, 2023	<u>6,500</u>	<u>\$ 650,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>55,521,804</u>	<u>\$ 55,522</u>	<u>\$ 37,179,719</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (37,387,571)</u>	<u>\$ (3,571,528)</u>

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended	
	June 30	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (825,337)	\$ (507,512)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	94,557	66,279
Stock-based compensation	458,385	399,820
Amortization of debt discount	12,990	19,485
Write down of inventory to net realizable value	-	-
Amortization of operating lease right of use asset	45,466	42,287
Reclassification of accounts receivable to other assets	427,727	-
Changes in operating assets and liabilities:		
Accounts receivable	(724,238)	(284,277)
Inventories	43,137	(171,991)
Prepaid expenses and other current assets	89,137	100,910
Accounts payable	172,038	(5,193)
Accrued expenses and other current liabilities	(109,867)	(137,803)
Operating Lease Liabilities	(47,472)	(42,729)
Net cash used in operating activities	<u>(363,477)</u>	<u>(520,724)</u>
Cash flows from investing activities		
Capital expenditures	(171,069)	(118,216)
Software and website development costs	(126,900)	-
Net cash used in investing activities	<u>(297,969)</u>	<u>(118,216)</u>
Net decrease in cash	(661,446)	(638,940)
Cash and cash equivalents - beginning of period	<u>1,041,766</u>	<u>2,179,070</u>
Cash and cash equivalents - end of period	<u>\$ 380,320</u>	<u>\$ 1,540,130</u>
Cash paid for:		
Interest	\$ 77,000	\$ 66,000
Non-cash investing and financing activities:		
Warrants issued in connection with convertible notes payable	\$ -	\$ -
Accrual of contractual dividends on Series B convertible preferred stock	\$ 171,115	\$ 171,116
Common stock issued to satisfy accrued directors' fees	\$ 48,000	\$ 48,000
Options issued to satisfy accrued directors' fees	\$ 80,000	\$ 80,000
Conversion of shares of Series C Preferred to common share	\$ -	\$ 250,000

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. Organization and Basis of Presentation

HealthWarehouse.com, Inc. ("HEWA" or the "Company"), a Delaware company incorporated in 1998, is an online mail order pharmacy, licensed and/or authorized to sell and deliver prescriptions in all 50 United States and the District of Columbia focusing on the out-of-pocket prescription drug market. The Company is a Verified Internet Pharmacy Practice Site ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP"). The Company markets a complete range of generic, brand name, and pet prescription medications as well as over-the-counter ("OTC") medications and products.

2. Liquidity and Capital Resources

The Company's working capital deficiency was \$4.9 million and the stockholder deficiency was \$3.6 million as of June 30, 2023. For the six months ended June 30, 2023, the Company had a net loss of \$825,000 and used net cash from operating activities of \$363,000. As of June 30, 2023, the Company had cash and cash equivalents totaling \$380,000. The year-to-date results were negatively impacted due to operational disruption and additional costs incurred related to the implementation of new pharmacy software, shipping software and order operating system. The software conversion impacted processing times which in turn reduced revenue and gross profit for the period. In addition, the Company incurred higher shipping (expedited shipping) and salary expenses (reduced efficiencies and higher overtime hours). The impact on the net cash from operating activities is estimated to be in excess of \$246,000.

In 2022, the Company extended the maturity date of the Convertible Notes from April 30, 2023 to April 30, 2024. As of June 30, 2023, the Convertible notes are classified as current liabilities resulting in an increase in the working capital deficiency. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2.6 million to the holders of the Series B Preferred shares. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company's discretion. While the maturity date of the Convertible Notes is April 30, 2024, the Company believes that it can generate positive cash from operations, as it has accomplished in prior years, by ceasing the discretionary expenditures and have sufficient cash and cash equivalents to repay the Convertible Note balance by the maturity date, in the event that the Convertible Notes are not converted into shares of common stock before that date. As such, the Company believes that its current financial resources are sufficient to satisfy the Company's estimated liquidity needs for at least twelve months from the date of issuance of these consolidated financial statements.

Accordingly, the accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which contemplates continuation of the Company as a going concern and the realization of assets and the satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the unaudited consolidated financial statements do not necessarily represent realizable or settlement values. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV, its wholly-owned subsidiaries. ION Holding NV and ION Belgium NV are inactive subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include reserves related to accounts receivable, the net realizable value of inventory, the recoverability and useful lives of long-lived

assets and website development costs, the valuation allowance related to deferred tax assets, the valuation of equity instruments, debt discounts and contingencies.

Reclassifications

Certain accounts in the prior period condensed consolidated financial statements have been reclassified for comparison purposes to conform to the presentation of the current period condensed consolidated financial statements. These reclassifications had no effect on the previously reported net loss.

Property and Equipment, net

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance, which do not extend the economic useful life of the related assets, are expensed in the period incurred. Gains or losses on disposal of property and equipment are reflected in the statements of operations in the period of disposal.

Risks and Uncertainties

War in Ukraine: In February 2022, the Russian Federation and Belarus commenced a military action with the country of Ukraine. As a result of this action, various nations, including the United States, have instituted economic sanctions against the Russian Federation and Belarus. Further, the impact of this action and related sanctions on the world economy are not determinable as of the date of these financial statements and the specific impact on the Company's financial condition, results of operations, and cash flows is also not determinable as of the date of these financial statements.

Inflation Reduction Act Excise Tax: On August 16, 2022, the Inflation Reduction Act of 2022 (the "IR Act") was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its stockholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the "Treasury") has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax. Any share redemption or other share repurchase that occurs after December 31, 2022, in connection with a Business Combination, extension vote or otherwise, may be subject to the excise tax. Whether and to what extent the Company would be subject to the excise tax in connection with a Business Combination, extension vote or otherwise will depend on a number of factors, including (i) the fair market value of the redemptions and repurchases in connection with a Business Combination, extension or otherwise, (ii) the structure of a Business Combination, (iii) the nature and amount of any "PIPE" or other equity issuances in connection with a Business Combination (or otherwise issued not in connection with a Business Combination but issued within the same taxable year of a Business Combination) and (iv) the content of regulations and other guidance from the Treasury. In addition, because the excise tax would be payable by the Company and not by the redeeming stockholder, the mechanics of any required payment of the excise tax have not been determined. The foregoing could reduce the cash available on hand. While the impact of this IR Act may possibly impact the financial statements after January 1, 2023, there was no impact on the results of operations and cashflows during the six months ended June 30, 2023 nor the financial condition as of June 30, 2023.

Recently Issued Accounting Pronouncements

In April 2019, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 will replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In connection with recognizing credit losses on receivables and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model. The Company adopted this standard effective January 1, 2023, which had no cumulative-effect adjustment to retained earnings as of the effective date.

In August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity”. ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted earnings per share (EPS) calculation in certain areas. This standard is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

There were no other recent accounting standard updates that the Company has not yet adopted that we believe would have a material impact on our consolidated financial statements.

Debt Discounts

The Company records, as a discount to notes and convertible notes, the relative fair value of warrants issued in connection with the issuances and the intrinsic value of any conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized to interest expense using the interest method over the earlier of the term of the related debt or their earliest date of redemption.

Revenue Recognition

The Company records revenue under the adoption of ASC 606, *Revenue from Contracts with Customers*, by analyzing exchanges with its customers using a five-step analysis: (i) identify the contract, (ii) identify performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price and (v) recognize revenue.

Revenue is generated through the sale of over-the-counter medication and prescription medication. The Company also generates revenue by providing fulfillment of prescription medication and over-the-counter products and other services to customers of other healthcare providers (“Partner Services”). These revenue streams culminate in a single performance obligation to provide the products and the service, and revenue is recorded in an amount that reflects the net consideration that the Company expects to receive for each revenue stream. Prices for the products are based on agreed upon rates with customers and do not include financing components or noncash consideration. The amount of consideration received and revenue recognized is variable for services offered to partner services customers and is impacted by volume rebates, which are generally tied to the number of prescriptions filled during the fulfillment process by the Company and settled on a monthly basis.

The Company records an estimate for provisions of discounts and other adjustments for its product shipments and are reflected as contra revenues in arriving at reported net revenues. The Company’s discounts are known at the time of sale; correspondingly, the Company reduces gross product sales for such discounts. The Company’s returns have historically been immaterial, therefore, the Company does not record a provision for returns.

The Company has determined that there is one performance obligation, which is the shipment and delivery of the product; this performance obligation is transferred at a discrete point in time. The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for the product or service. For all customers, revenue is recognized at a point-in-time (at the time the medication is shipped or at the time the fulfillment or other service is performed) based on the agreed upon terms with each customer when customer has control. The Company defers revenue when cash has been received from the customer, but shipment has not yet occurred. Such amounts are reflected as deferred revenues within accrued expenses in the accompanying consolidated financial statements.

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the

Company for partner services are either prepaid by the customer or paid by check or electronic funds transfer upon receipt of a monthly invoice. The Company extends terms to some partner services customers ranging from 10 to 45 days.

The Company receives upfront payments to offset set up costs related to new partner services contracts, which may include engineering time, setting up workflow, and purchasing computer equipment for a dedicated processing station. The setup costs are incurred to generate and/or enhance resources that will be used to satisfy performance obligations of the customer in the future through the services provided via the contract entered into with the customer. As such, the set up costs are recorded as deferred revenue and recognized over the term of the contract with the customer. The Company had \$14,333 of these costs included in the deferred revenue balance at December 31, 2022.

Taxes assessed by a governmental authority that the Company collects from customers that are both imposed on and concurrent with revenue producing activities (such as sales tax, value-added tax, and excise taxes) are excluded from revenue and recorded as sales tax payable in accrued expenses.

Disaggregation of Revenue

Revenue is primarily generated through the sale of over-the-counter medication and prescription medication (i) sold directly to consumers through the Company's website and call center ("B2C") and (ii) through fulfillment and other services provided to other healthcare providers ("Partner Services"). The following table summarizes revenue for the three and six months ended June 30, 2023 and 2022.

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
B2C Sales	\$3,626,526	\$3,136,236	\$7,148,792	\$6,670,592
Partner Services Sales	1,696,555	1,017,680	3,449,967	1,797,604
Other Sales	4,272	45,916	4,772	46,616
Total Sales	<u>\$5,327,353</u>	<u>\$4,199,832</u>	<u>\$10,603,531</u>	<u>\$8,514,812</u>

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company (i) has received customer deposits from the customer but has not yet provided the fulfillment services and (ii) has received an upfront payment from the customer to cover set up costs including equipment and engineering resources. The Company had total contract liabilities of \$14,859 and \$45,183 as of June 30, 2023 and December 31, 2022, respectively, which were comprised of (i) customer deposits of \$14,859 and \$30,850 as of June 30, 2023 and December 31, 2022, respectively, which represented refundable customer deposits that were recorded as deferred revenue and (ii) deferred revenue of \$14,333 as of December 31, 2022, related to upfront payments received from customers that are being amortized over the term of the contract. During the three and six months ended June 30, 2023, the Company recognized revenue of \$2,333 and \$14,333, respectively, related to the amortization of the upfront payments. During the three and six months ended June 30, 2022, the Company recognized revenue of \$12,167 and \$14,667, respectively, related to the amortization of the upfront payments. Other than accounts receivable, there were no contract assets as of June 30, 2023 and December 31, 2022.

Net Loss Per Share of Common Stock

Basic net loss per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of net earnings per share if their inclusion would be anti-dilutive and consist of the following:

	June 30,	
	2023	2022
Options	21,254,159	15,358,625
Warrants	764,000	1,127,367
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Redeemable Convertible Preferred Stock	4,642,858	3,823,530
Convertible Notes Payable	17,708,338	17,708,338
Total potentially dilutive shares	<u>52,026,269</u>	<u>45,674,774</u>

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30,	December 31,
	2023	2022
Salaries and Benefits	\$ 60,777	\$ 192,279
Accrued Legal	19,000	19,000
Accrued Accounting	151,263	114,938
Accrued Corporate and Property Taxes	57,775	47,511
Accrued Interest	28,435	28,435
Sales Tax Payable	148,857	132,423
Accrued Shipping	45,430	28,850
Advertising	36,165	57,900
Accrued Director Fees	64,000	64,000
Deferred Revenue	16,458	52,307
Other	15,396	15,780
	<u>\$ 643,556</u>	<u>\$ 753,423</u>

5. Notes Payable

Notes payable consisted of the following:

	June 30,	December 31,
	2023	2022
Convertible Promissory Note	\$ 2,200,000	\$ 2,200,000
Less debt discount	-	(12,990)
Total debt	2,200,000	2,187,010
Less current portion	(2,200,000)	-
Long-term debt, less current portion	<u>\$ -</u>	<u>\$ 2,187,010</u>

Convertible Promissory Notes

The Company executed convertible note purchase agreements (the “Convertible Purchase Agreements”) and a security agreement, as amended, (the “Convertible Security Agreement”) on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the “Convertible Notes”) (collectively the “Convertible Note Agreements”). Under the terms of the Convertible Notes, the Company borrowed an aggregate of \$2,200,000 from a group of eleven investors. The Convertible Notes bear interest on the unpaid principal balance until the full amount of principal has been paid or converted to common shares at a fixed rate equal to 7% per annum. Under the terms of the Convertible Notes,

the Company has agreed to make quarterly payments of accrued interest on the last day of every calendar quarter beginning on March 31, 2020. The principal amount and all unpaid accrued interest on the Convertible Notes are payable on April 30, 2024. As of June 30, 2023, the outstanding principal balance on the Convertible Promissory Notes was \$2,200,000 and accrued interest was \$38,500.

At any time prior to the maturity date, each purchaser may convert their Convertible Note balance, in whole or in part, into shares of the Company's common stock at conversion rates ranging between \$0.12 and \$0.14 per share (the "Conversion Rate") which was the 30-day weighted average closing share price on the closing dates. The Company may initiate the conversion of the Convertible Notes at any time prior to the maturity date in the event that the 60-day weighted average price of a share of the Company's common stock as reported on OTC Markets exceeds \$0.30 per share. The Conversion Price is subject to adjustment in the event of future dilutive transactions.

The Company received an aggregate of \$1,661,969 of cash proceeds, net of costs associated with the transaction, including \$500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. The cash proceeds from the Convertible Promissory Note were used to repay the outstanding balance of the Melrose Unsecured Note of \$750,000. In addition, the Company exchanged the Millennium Promissory Note with an outstanding balance of \$500,000 for a like amount of Convertible Notes. Both Melrose Capital Advisors, LLC and the Timothy E. Reilly IRA are owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium note in the Convertible Notes transaction is a related party transaction.

The Company was a party to a convertible note purchase agreement, effective August 15, 2022, between the Millennium Trust IRA and the Estate of Marian Pauly (the "Estate"), whereby the Estate transferred its ownership interest in a convertible note which had a principal amount of \$50,000 and a warrant to purchase 3,000 shares of the Company's common stock, to Millennium Trust IRA. As part of the transaction, the Company retired the Convertible Promissory Note payable to the Estate and issued an Amended and Restated Convertible Promissory Note with a principal amount of \$50,000 to Millennium Trust IRA. This Millennium investment was also a related party transaction.

6. Operating Leases

The Company is a party to a lease agreement for office and storage space for its headquarters in Florence, Kentucky. On July 30, 2018, the Company entered into an amendment of the lease agreement which extended the lease for an additional five years to December 31, 2024. The amended monthly lease rate will range between \$7,955 and \$9,498. The Company has an option to extend the term by three years, however, the Company determined that it was not reasonably certain to exercise the renewal option and such renewal was excluded from the operating lease right-of-use, or ROU, asset and operating lease liability recorded for this lease.

The Company is responsible for real estate taxes, maintenance and other operating expenses applicable to the leased premises which are recognized as variable lease expense in the period when incurred.

This lease is classified as an operating lease and is included in operating lease ROU assets and operating lease liabilities. Since the Company's lease did not provide an implicit rate, the Company used its estimated incremental borrowing rate based on the lease term and other information available at the commencement date in determining the present value of lease payments.

Supplemental balance sheet information as of June 30, 2023 is as follows:

Operating lease right-of-use assets	\$ 278,655
Accumulated amortization	<u>(131,591)</u>
Net operating right-of-use-assets	<u>\$ 147,064</u>
Current operating lease liabilities	\$ 103,409
Noncurrent operating lease liabilities	<u>56,169</u>
Total operating lease liabilities	<u>\$ 159,578</u>
Weighted-average remaining lease term (years)	1.6
Weighted-average discount rate	7.0%

The aggregate future minimum lease payments for operating leases as of June 30, 2023 were as follows:

2023	\$ 55,329
2024	<u>112,318</u>
Total gross lease payment	\$ 167,647
Less: Imputed interest	<u>(8,069)</u>
Total lease liabilities, reflecting present value of future minimum lease payments	<u>\$ 159,578</u>

During the three and six months ended June 30, 2023, the Company recorded aggregate lease expense was \$40,765 and \$71,418, respectively. During the three and six months ended June 30, 2022, the Company recorded aggregate lease expense was \$40,843 and \$80,760, respectively.

7. Stockholders' Deficiency

The Company is authorized to issue up to 175,000,000 shares of common stock with a par value of \$0.001 per share and 1,000,000 shares of preferred stock with a par value of \$0.001 per share.

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders of the Corporation approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

OTC Market Tier Change

On April 14, 2017, the Company filed a Form 15 with the Securities and Exchange Commission terminating the registration of its common stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. The Company transitioned to the OTC Pink Sheets – Current Information tier of the OTC Market on July 10, 2017. On May 11, 2021, the Company was approved for listing and began trading on the OTCQB Market.

Common Stock

During the six months ended June 30, 2023, the Company issued an aggregate of 282,352 shares of common stock under the 2014 Equity Incentive Plan (the "2014 Plan") to directors of the Company for payment of their accrued noncash portion of their director fees for the fourth quarter of 2022 and the first quarter of 2023. The shares had an aggregate grant date

value of \$48,000 or \$0.17 per share, which was the 30-day weighted average closing share price on the grant date. Of the total aggregate grant date value, \$24,000 was included in accrued expenses and other current liabilities as of December 31, 2022.

Stock-based compensation expense related to common stock issued was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled \$24,000 for the three months ended June 30, 2023 and 2022 and \$48,000 for the six months ended June 30, 2023 and 2022. Stock-based compensation of \$24,000 is included in accrued expenses and other liabilities as of June 30, 2023.

Preferred Stock

Series B Preferred Stock

As of June 30, 2023 and December 31, 2022, the Company had accrued contractual dividends of \$2,566,747 and \$2,395,631, respectively, related to the Series B Preferred Stock.

Stock Options

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the three and six months ended June 30, 2023 and 2022, the Company used the following weighted average assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30	
	2023	2022	2023	2022
Risk-free interest rate	3.89%	2.70%	3.82% to 3.89%	1.59% to 2.70%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	130%	137%	128% to 130%	137% to 175%
Weighted average expected life (contractual term) in years	5.0	5.0	5.0 to 6.0	5.0 to 6.0

Grants

The weighted average fair value of the stock options granted during the six months ended June 30, 2023 was \$0.17.

During the six months ended June 30, 2023, the Company granted stock options to purchase an aggregate 544,612 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees. The options had an exercise price of \$0.17 per share and had an aggregate grant date value of \$80,000, of which \$40,000 was included in accrued expenses as other liabilities as of December 31, 2022.

During the six months ended June 30, 2023, the Company granted stock options to key employees and two executives to purchase an aggregate of 5,100,000 shares of common stock under the 2014 Plan at an exercise price of \$0.17 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options had an aggregate grant date value of \$776,639, vest over a three-year period and have a term of ten years.

Stock-based compensation expense related to stock options was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled \$211,411 and \$410,385 for the three and six months ended June 30, 2023, respectively, and \$172,930 and \$351,821 for the three and six months ended June 30, 2022, respectively. Of the total expense, \$40,000 was included in accrued expenses and other liabilities as of June 30, 2023 and 2022.

As of June 30, 2023, stock-based compensation expense related to stock options of \$1,177,421 remains unamortized which is being amortized over the weighted average remaining period of 2.0 years.

Summary

A summary of the stock option activity during the six months ended June 30, 2023 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2023	15,830,547	\$ 0.18		
Granted	5,644,612	0.17		
Exercised	-	-		
Forfeited	(221,000)	0.30		
Outstanding, June 30, 2023	<u>21,254,159</u>	<u>\$ 0.18</u>	<u>7.9</u>	<u>\$ 420,964</u>
Exercisable, June 30, 2023	<u>12,020,821</u>	<u>\$ 0.18</u>	<u>7.0</u>	<u>\$ 294,297</u>

The following table presents information related to stock options outstanding and exercisable at June 30, 2023:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Weighted Average Exercise Price	Outstanding Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$0.09 - \$0.20	\$ 0.16	18,923,051	\$ 0.15	7.5	9,689,713
\$0.22 - \$0.35	\$ 0.32	2,286,108	\$ 0.32	5.1	2,286,108
\$0.53 - \$1.60	\$ 0.53	45,000	\$ 0.53	0.5	45,000
\$0.09 - \$1.60	\$ 0.18	<u>21,254,159</u>	\$ 0.18	7	<u>12,020,821</u>

Warrants

There was no stock-based compensation expense related to warrants in the three and six months ended June 30, 2023 and 2022. As of June 30, 2023, there was no unamortized stock-based compensation expense related to warrants.

A summary of the stock warrant activity during the six months ended June 30, 2023 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2023	764,000	\$ 0.11		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding, June 30, 2023	<u>764,000</u>	<u>\$ 0.11</u>	<u>2.3</u>	<u>\$ 50,210</u>
Exercisable, June 30, 2023	<u>764,000</u>	<u>\$ 0.11</u>	<u>2.3</u>	<u>\$ 50,210</u>

The following table presents information related to stock warrants at June 30, 2023:

Range of Exercise Price	Warrants Outstanding		Warrants Exercisable		
	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
\$0.11 - \$0.14	\$ 0.11	764,000	\$ 0.11	2.3	764,000

8. Commitments and Contingent Liabilities

Employment Agreement

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts (the “Employment Agreements”). The terms of the Employment Agreement include a term of one year beginning on January 1, 2020 with an extension provision allowing for automatic one-year extensions unless the Company or the employee provides advanced written notice of non-renewal, the titles and positions of Chief Executive Officer and Chief Financial Officer, respectively, an initial base salary of \$128,000 and \$124,000 per year, respectively, subject to certain bonus and severance provisions. Effective January 1, 2021, the Compensation Committee approved an increase in the base salaries for Mr. Peters and Mr. Seliga to \$138,000 and \$134,000 per year, respectively. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

On January 28, 2022, Mr. Peters and Mr. Seliga were granted options to purchase 1,000,000 and 800,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of \$0.15 per share for an aggregate grant date value of \$278,941. The options vest over a three-year period and have a term of ten years. On January 21, 2021, Mr. Peters and Mr. Seliga were each granted options to purchase 1,200,000 shares of common stock under the 2014 Plan at an exercise price of \$0.17 per share for an aggregate grant date value of \$396,178. The options vest over a three-year period and have a term of ten years.

On February 8, 2023, Mr. Peters and Mr. Seliga were granted options to purchase 1,000,000 and 800,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of \$0.17 per share for an aggregate grant date value of \$274,108. The options vest over a three-year period and have a term of ten years. See Note 7.

Litigation

In the ordinary course of business, we may become subject to lawsuits and other claims and proceedings that might arise from litigation matters or regulatory audits. Such matters are subject to uncertainty and outcomes are often not predictable with assurance. Our management does not presently expect that any current outstanding matters will have a material adverse

effect on the Company's consolidated financial condition or consolidated results of operations. We are not currently involved in any pending or threatened material litigation or other material legal proceedings nor have we been made aware of any penalties from regulatory audits.

On March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges the Company conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys' fees. After retaining local counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company's motions. On July 10, 2023, the Company filed a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company's motions. The Company plans to file a reply to the Plaintiff's opposition on August 14, 2023, at which time the matter will be fully briefed and before the Court. The Company intends to contest this matter vigorously.

9. Concentrations

The Company maintains deposits in financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times, the Company has deposits in these financial institutions in excess of the amount insured by the FDIC.

Three customers represented 8%, 7% and 7% of total sales during the three months ended June 30, 2023 and 9%, 6% and 6% of total sales during the six months ended June 30, 2023. During the three and six months ended June 30, 2022, one customer represented 9% and 8% of total sales, respectively.

Three customers represented 29%, 29%, and 20% of the accounts receivable balance (excluding the contract liabilities) as of June 30, 2023. Three customers represented 46%, 15%, and 10% of the accounts receivable balance as of December 31, 2022. The customers noted above are related to Partner Services sales.

Three suppliers represented 35%, 26% and 12% of total inventory purchases during the three months ended June 30, 2023 and three suppliers represented 37%, 27% and 10% during the six months ended June 30, 2023. Three suppliers represented 34%, 33% and 14% of total inventory purchases during the three months ended June 30, 2022 and three suppliers represented 33%, 27% and 11% during the six months ended June 30, 2022.

One vendor represented 35% of the accounts payable balance as of June 30, 2023. One vendor represented 45% of the accounts payable balance at December 31, 2022.

10. Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements, except as noted below:

Issuance of Common Stock and Options to Directors

On July 14, 2023, the Company issued an aggregate of 141,176 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees for the second quarter of 2023. The shares had an aggregate grant date value of \$24,000 and were valued at \$0.17 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The aggregate amount of the grant date value of the common stock which totaled \$24,000 was included in accrued expenses as other liabilities as of June 30, 2023.