

HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

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SIC Code: 5912 - Drugstores and Proprietary Stores

Quarterly Report

For the quarter ended March 31, 2022

As of March 31, 2022, the number of shares outstanding of our Common Stock was 52,178,475.

As of December 31, 2021, the number of shares outstanding of our Common Stock was 52,028,475.

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 March 31, 2022:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	125,000,000	52,178,475	11,436,346	185	252
Preferred Stock – Series B	790,000	517,359	-0-	2	2
Preferred Stock – Series C	10,000	9,000	-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 Corporation, the stockholders approved an amendment to the Corporation’s Certificate of Incorporation to increase the number of authorized shares of common stock that may be issued to 125,000,000, which was effective on October 9, 2020. At the meeting, the stockholders also 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.

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, 2022		Opening Balance								
		Common		52,028,475						
		Preferred Series B		517,359						
		Preferred Series C		9,000						
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	
1/17/22	New	37,500	Common	\$0.16	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701	
1/17/22	New	37,500	Common	\$0.16	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701	
1/17/22	New	37,500	Common	\$0.16	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701	
1/17/22	New	37,500	Common	\$0.16	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701	
Number of Shares outstanding as of March 31, 2022		Ending Balance								
		Common		52,178,475						
		Preferred Series B		517,359						
		Preferred Series C		9,000						

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 9 - 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 (\$) as of 3/31/2022	Principal Amount at Issuance (\$)	Interest Accrued (\$) as of 3/31/2022	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	\$ 1,675,000	\$ 1,675,000	\$ -	4/30/2023	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	\$ -	4/30/2023	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; Marian Pauly; 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 three months ended March 31, 2022 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 March 31, 2022 (unaudited) and December 31, 2021; Unaudited Condensed Consolidated Statements of Operations – Three Months Ended March 31, 2022 and 2021; Unaudited Condensed Consolidated Statements of Changes in Stockholders' Deficiency – Three Months Ended March 31, 2022 and 2021; Unaudited Condensed Consolidated Statements of Cash Flows – Three Months Ended March 31, 2022 and 2021; 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. is an online 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, a market which is expected to continue to grow. 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.

Our objectives are to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We have become known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medication. We were named by Money.com as one of the five best online pharmacies in 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 customer service offering.

Results of Operations

For the Three Months Ended March 31, 2022 Compared to the Three Months Ended March 31, 2021

	For three months ended March 31, 2022	% of Net Sales	For three months ended March 31, 2021	% of Net Sales
Net sales	\$ 4,314,980	100.0%	\$ 3,818,285	100.0%
Cost of sales	1,464,645	33.9%	1,166,410	30.5%
Gross profit	2,850,335	66.1%	2,651,875	69.5%
Selling, general & administrative	3,022,021	70.0%	2,739,576	71.7%
Loss from operations	(171,686)	(3.9%)	(87,701)	(2.2%)
Interest expense, net	(42,302)	(1.0%)	(43,324)	(1.1%)
Net loss	\$ (213,988)	(4.9%)	\$ (131,025)	(3.3%)

Net Sales

For the three months ended March 31, 2022	%	\$	For the three months ended March 31, 2021
	Change	Change	
\$4,314,980	13.0%	\$496,695	\$3,818,285

Net sales for the three months ended March 31, 2022 increased from \$3,818,285 to \$4,314,980 for the three months ended March 31, 2021, an increase of \$496,695, or 13.0%. Prescription sales were \$3,435,123 for the three months ended March 31, 2022, as compared to \$3,163,793 for the three months ended March 31, 2021, an increase of \$271,329, or 8.6%. These increases were primarily due to growth in partner services revenue, offset by a reduction in our direct-to-consumer (B2C) business. Over-the-counter net sales increased by 37.0% from \$579,145 in the three months ended March 31, 2021 to \$793,729 in the three months ended March 31, 2022, primarily due to sales of test kits and supplements related to COVID 19.

The Company will continue to focus on and dedicate resources toward customer acquisition, conversion and retention while adding new partner services customers in 2022.

Cost of Sales and Gross Margin

	For three months ended March 31, 2022	%	\$	For three months ended March 31, 2021
		Change	Change	
Cost of sales	\$1,464,645	25.6%	298,235	\$1,166,410
Gross margin \$	\$2,850,335	7.5%	198,460	\$2,651,875
Gross margin %	66.1%	-3.4%		69.5%

Cost of sales were \$1,464,645 for the three months ended March 31, 2022 as compared to \$1,166,410 for the three months ended March 31, 2021, an increase of \$298,235 or 25.6%, primarily as a result of an increase in order volume and higher costs for our over-the-counter and partner services business. Gross profit for the three months ended March 31, 2022 was \$2,850,335, a \$198,460 or 7.5% increase when compared to the same period in 2021, due to the increase in sales volume offset by higher costs on over-the-counter and partner services business. Gross margin percentage decreased from 69.5% for the three months ended March 31, 2021 to 66.1% for the three months ended March 31, 2022, primarily due to the lower margins on the mix of products sold in our over-the-counter and partner services businesses.

Selling, General and Administrative Expenses

	For three months ended	%	\$	For three months ended
	March 31, 2022	Change	Change	March 31, 2021
S,G&A	\$3,022,021	10.3%	\$282,445	\$2,739,576
% of sales	70.0%			71.7%

Selling, general and administrative expenses totaled \$3,022,021 for the three months ended March 31, 2022 compared to \$2,739,576 for the three months ended March 31, 2021, an increase of \$282,445, or 10.3%. For the three months ended March 31, 2022, expense increases included: (a) a \$110,296 increase in salaries and related expenses; (b) a \$72,198 increase in shipping and shipping supplies expenses; (c) a \$24,356 increase in stock-based compensation expense; (d) a \$17,510 increase in advertising and marketing expenses; (e) a \$12,702 increase in software expense; (f) a \$11,200 increase in accounting expense; (f) a \$8,700 increase in corporate taxes; (g) a \$6,899 increase in rent expense; (h) a \$4,568 increase in license expenses; (i) a \$4,139 increase in credit card fees; and (j) a \$4,098 increase in maintenance and repairs expense. The increases were partially offset by a \$18,304 decrease in legal expense.

Other Income and Expense

Net interest expense decreased from \$43,324 in the three months ended March 31, 2021 to \$42,302 in the three months ended March 31, 2022, a decrease of \$1,022, or 2.4%, primarily due to a decrease in amortization of debt discounts related to the issuance of convertible notes, offset by a reduction in interest income. Interest income decreased from \$1,193 in the three months ended March 31, 2021 to \$441 for the three months ended March 31, 2022 as lower returns were realized on interest bearing money market accounts.

Adjusted EBITDAS

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 periods.

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 EBITDAS 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 March 31,	
	2022	2021
Net loss	\$ (213,988)	\$ (131,025)
Interest expense - net	42,302	43,324
Depreciation and amortization	32,842	33,280
EBITDA (non-GAAP)	(138,844)	(54,421)
Adjustments to EBITDA:		
Stock-based compensation	202,891	178,535
Adjusted EBITDA	<u>\$ 64,047</u>	<u>\$ 124,114</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 three months ended March 31, 2022, 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. Despite increases in those areas, we believe that inflation has not had a material impact on our results of operations for the three months ended March 31, 2022 and 2021. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Liquidity and Capital Resources

The Company's working capital deficiency increased from \$572,045 at December 31, 2021 to \$719,205 as of March 31, 2022 and the stockholder deficiency increased from \$2,785,275 at December 31, 2021 to \$2,881,930 as of March 31, 2022. For the three months ended March 31, 2022, the Company had a net loss of \$213,987 and had net cash used in operating activities of \$344,902 for the three months ended March 31, 2022. As of March 31, 2022, the Company had cash and liquid investments totaling \$1,741,077.

During 2020, the Company reduced its current obligations by completing a Convertible Note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred Stock and receiving forgiveness of its PPP loan. In 2021, the Company extended the original maturity date of the Convertible Notes to April 30, 2023, which reduced its current obligations as of March 31, 2022. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2,138,956 to the holders of the Series B Preferred Stock. 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, 2023, the Company believes that it will continue to generate positive cash from operations and have sufficient cash and cash equivalents to repay the note balance 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 hereof.

As of March 31, 2022 and December 31, 2021, the Company had cash on hand of \$1,741,077 and \$2,179,070, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the three months ended March 31, 2022, cash flows included net cash used in operating activities of \$344,902. This amount included a decrease in operating cash related to a net loss of \$213,988, offset by aggregate non-cash adjustments of \$245,476 and aggregate cash provided by changes in operating assets and liabilities of \$376,390 (primarily a result of an increase in accounts receivable and inventories and a reduction in accrued expenses offset by an increase in accounts payable). For the three months ended March 31, 2021, cash flows included net cash provided by operating activities of \$178,075. This amount included a decrease in operating cash related to a net loss of \$131,025, partially offset by aggregate non-cash adjustments of \$223,331, plus aggregate cash provided by changes in operating assets and liabilities of \$85,769 (primarily a result of an increase in accounts payable and a decrease in receivables offset by a reduction in accrued expenses).

For the three months ended March 31, 2022, net cash used in investing activities was \$93,091 primarily related to software development costs to be capitalized. For the three months ended March 31, 2021, the Company had no investing activities

For the three months ended March 31, 2022 and 2021, the Company had no financing activities.

Changes in Financial Condition

The Company's total assets were \$3,528,311 at March 31, 2022, a decrease of \$92,086 over the balance at December 31, 2021 of \$3,620,397 primarily due to decreases in cash on hand offset by increases in accounts receivables, inventory and property and equipment. Total liabilities were \$5,510,241 at March 31, 2022, an increase of \$4,568 from the balance at December 31, 2021 of \$5,505,672 primarily due to an increase in accounts payable, dividend payable and deferred revenue offset by a reduction in accrued wages and expenses.

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 April 29, 2022, a class action complaint was filed in the United States District Court, Middle District of Florida against the Company (Cynthia Belle, Individually and on behalf of all others similarly situated, Plaintiff v. Heathwarehouse.com, Inc., Defendant). The Complaint alleges the Company sent unsolicited marketing text messages to the Plaintiff's cellphone using an autodialer and/or computer software system that selected and dialed Plaintiff's telephone number without his consent and that the Company did not provide the Plaintiff with instructions on how to opt of future text messages in violation of the Telephone Consumer Protection Act, 47 U.S.C Sections 227, et seq. (the TCPA"), and the Florida Telephone Solicitations Act, Fla. Stat. Section 501.059 (the FTSA"). The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, attorneys' fees and statutory damages under the TCPA and FTSA. The Company believes the Complaint is without merit and intend to defend the suit 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: May 12, 2022 /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: May 12, 2022 /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

	<u>(Unaudited)</u> March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,741,077	\$ 2,179,070
Accounts receivable	303,069	148,375
Inventories	449,625	281,252
Prepaid expenses and other current assets	139,482	176,891
Total current assets	2,633,253	2,785,588
Property and equipment, net	895,058	834,809
Total assets	\$ 3,528,311	\$ 3,620,397
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	\$ 739,676	\$ 671,463
Accrued expenses and other current liabilities	2,612,783	2,686,170
Total current liabilities	3,352,459	3,357,633
Long term liabilities:		
Convertible notes payable, net of debt discount of \$42,218 and \$51,961 as of March 31, 2022 and December 31, 2021, respectively	2,157,782	2,148,039
Total long term liabilities	2,157,782	2,148,039
Total liabilities	5,510,241	5,505,672
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value \$0.001 per share; 10,000 shares designated Series C: 9,000 issued and outstanding as of March 31, 2022 and December 31, 2021 (aggregate liquidation preference of \$900,000)	900,000	900,000
Stockholders' deficiency:		
Preferred stock – par value \$0.001 per share; authorized 1,000,000 shares; issued and outstanding as of March 31, 2022 and December 31, 2021 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of March 31, 2022 and December 31, 2021 (aggregate liquidation preference of \$7,027,999 and \$6,942,441 as of March 31, 2022 and December 31, 2021, respectively)	517	517
Common stock – par value \$0.001 per share; 125,000,000 shares authorized as of March 31, 2022 and December 31, 2021; 53,357,687 and 53,207,687 shares issued and 52,178,475 and 52,028,475 shares outstanding as of March 31, 2022 and December 31, 2021, respectively	53,357	53,207
Additional paid-in capital	35,880,313	35,677,572
Treasury stock, at cost, 1,179,212 shares as of March 31, 2022 and December 31, 2021	(3,419,715)	(3,419,715)
Accumulated deficit	(35,396,402)	(35,096,856)
Total stockholders' deficiency	(2,881,930)	(2,785,275)
Total liabilities and stockholders' deficiency	\$ 3,528,311	\$ 3,620,397

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

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

	(Unaudited)	
	For the Three Months Ended	
	March 31,	
	2022	2021
Total net sales	\$ 4,314,980	\$ 3,818,285
Cost of sales	1,464,645	1,166,410
Gross profit	2,850,335	2,651,875
Selling, general and administrative expenses	3,022,021	2,739,576
Loss from operations	(171,686)	(87,701)
Interest expense, net	(42,302)	(43,324)
Net loss	(213,988)	(131,025)
Preferred stock:		
Series B convertible preferred stock contractual dividends	(85,558)	(85,558)
Net loss attributable to common stockholders	\$ (299,546)	\$ (216,583)
Per share data:		
Net loss – basic and diluted	\$ (0.00)	(0.00)
Series B convertible preferred stock contractual dividends	(0.00)	(0.00)
Net loss attributable to common stockholders - basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	52,150,142	51,632,399

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 THREE MONTHS ENDED MARCH 31, 2022 AND 2021

	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, 2021	9,000	\$ 900,000	517,359	\$ 517	52,679,847	\$ 52,679	\$ 34,893,278	1,179,212	\$ (3,419,715)	\$ (34,182,121)	\$ (2,655,362)
Stock-based compensation	-	-	-	-	-	-	154,535	-	-	-	154,535
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	-	-	-	-	-	-	-	-	-	(131,025)	(131,025)
Balances, March 31, 2021	<u>9,000</u>	<u>\$ 900,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>52,821,023</u>	<u>\$ 52,820</u>	<u>\$ 35,071,672</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (34,398,704)</u>	<u>\$ (2,693,410)</u>
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	-	-	-	-	-	-	178,891	-	-	-	178,891
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)
Net loss	-	-	-	-	-	-	-	-	-	(213,988)	(213,988)
Balances, March 31, 2022	<u>9,000</u>	<u>\$ 900,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>53,357,687</u>	<u>\$ 53,357</u>	<u>\$ 35,880,313</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (35,396,402)</u>	<u>\$ (2,881,930)</u>

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

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

	For the Year Ended March 31	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (213,988)	\$ (131,025)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,842	33,279
Stock-based compensation	202,891	178,535
Amortization of debt discount	9,743	11,517
Changes in operating assets and liabilities:		
Accounts receivable	(154,694)	80,561
Inventories	(168,373)	(4,247)
Prepaid expenses and other current assets	37,409	17,454
Accounts payable	68,213	34,170
Accrued expenses and other current liabilities	(158,945)	(42,169)
Net cash provided by (used in) operating activities	(344,902)	178,075
Cash flows from investing activities		
Capital expenditures	(93,091)	-
Net cash used in investing activities	(93,091)	-
Cash flows from financing activities		
Net increase (decrease) in cash	(437,993)	178,075
Cash, cash equivalents and restricted cash - beginning of period	2,179,070	1,865,425
Cash, cash equivalents and restricted cash - end of period	\$ 1,741,077	\$ 2,043,500
Cash paid for:		
Interest	\$ 33,000	\$ 33,000
Non-cash investing and financing activities:		
Accrual of contractual dividends on Series B convertible preferred stock	\$ 85,558	\$ 85,558
Common stock issued to satisfy accrued directors' fees	\$ 24,000	\$ 24,000
Options issued to satisfy accrued directors' fees	\$ 40,000	\$ 40,000

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 \$719,205 and the stockholder deficiency was \$2,881,930 as of March 31, 2022. For the three months ended March 31, 2022, the Company had a net loss of \$213,988 and used net cash from operating activities of \$(344,902). As of March 31, 2022, the Company had cash, cash equivalents and restricted cash totaling \$1,741,077.

During 2020, the Company reduced its current obligations by completing a Convertible Note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred Stock and receiving forgiveness of its PPP loan. In 2021, the Company extended the original maturity date of the Convertible Notes to April 30, 2023, which reduced its current obligations as of March 31, 2022. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2,138,956 to the holders of the Series B Preferred Stock. 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, 2023, the Company believes that it will continue to generate positive cash from operations and have sufficient cash and cash equivalents to repay the note balance 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 filing of these unaudited 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.

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

COVID-19 Pandemic: In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our operations or the global economy as a whole. Possible effects may include, but are not limited to, mandates from federal, state and local governments that would directly prohibit our ability to conduct business, absenteeism in the Company's labor workforce and limitations on availability of products and supplies. The effects could have a material impact on our operations, and we will continue to monitor the COVID-19 situation closely.

To date, the pandemic has had a limited impact on our business operations due to our classification as an essential business in Kentucky. The Company has implemented policies and procedures based on recommended guidelines provided by the CDC in order to limit the possibility of the infection of employees, including transitioning over 50% of our staff of approximately 110 employees to telecommuting from their homes. The Company continues to experience shortages in the supply of medications, particularly over-the-counter, albeit to a lesser extent than was experienced during the beginning of the pandemic in 2020.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This update and related amendments are effective for nonpublic entities for annual periods beginning after December 15, 2021. The Company is currently assessing the impact this guidance will have on its consolidated financial statement.

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. This standard is effective for annual periods beginning after December 15, 2022, with early adoption permitted. The adoption of this standard will be through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". ASU 2019-12 removes specific exceptions to the general principles in Topic 740 in U.S. GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period:

- Exception to the incremental approach for intraperiod tax allocation;
- Exceptions to accounting for basis differences when there are ownership changes in foreign investments; and
- Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

ASU 2019-12 also improves financial statement preparers' application of income tax-related guidance and simplifies U.S. GAAP for:

- Franchise taxes that are partially based on income;
- Transactions with a government that result in a step up in the tax basis of goodwill;
- Separate financial statements of legal entities that are not subject to tax; and
- Enacted changes in tax laws in interim periods.

This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. If early adoption is elected, the entity should adopt all amendments in the same period. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements" ("ASU 2020-10"). This ASU contains amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). Many of the amendments arose because the FASB provided an option to give certain information either on the face of the financial statements or in the notes to financial statements and that option only was included in the Other Presentation Matters Section (Section 45) of the Codification. The option to disclose information in the notes to financial statements should have been codified in the Disclosure Section as well as the Other Presentation Matters Section (or other Section of the Codification in which the option to disclose in the notes to financial statements appears). This standard is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, "Earnings per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options". This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses:

- How an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange;
- How an entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; and
- How an entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange.

This standard is effective for fiscal years beginning after December 15, 2021, 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 the Company believes would have a material impact on its 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

Revenues for the sales of products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is reasonably assured. The Company defers revenue when cash has been received from the customer, but delivery has not yet occurred. Such amounts are reflected as deferred revenues within accrued expenses in the accompanying consolidated financial statements.

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 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.

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.

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 months ended March 31, 2022 and 2021.

	For the three months ended March 31,	
	2022	2021
B2C Sales	\$3,534,356	\$3,426,330
Partner Services Sales	779,924	390,555
Other Sales	700	1,400
Total Sales	\$4,314,980	\$3,818,285

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company has received customer deposits from the customer but has not yet provided the fulfillment services. The Company had contract liabilities of \$57,762 and \$20,763 as of March 31, 2022 and 2021, respectively, which represented refundable customer deposits and was recorded as a reduction of accounts receivable. Other than accounts receivable, there were no contract assets as of March 31, 2022.

Net Earnings (Loss) Per Share of Common Stock

Basic net earnings (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:

	March 31,	
	2022	2021
Options	15,208,711	9,851,551
Warrants	1,162,367	898,367
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Redeemable Convertible Preferred Stock	6,944,445	5,000,000
Convertible Notes Payable	17,708,338	17,708,338
Total potentially dilutive shares	48,680,775	41,115,170

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 31,	December 31,
	2022	2021
Salaries and Benefits	\$ 62,436	\$ 197,935
Dividend Payable	2,138,956	2,053,398
Accounting	48,738	97,138
Accrued Corporate Taxes	30,403	34,002
Accrued Interest	28,435	28,435
Accrued Rent	16,748	16,969
Sales Tax Payable	78,097	51,658
Advertising	5,800	35,700
Accrued Engineering Fees	47,000	47,000
Accrued Director Fees	64,000	64,000
Deferred Revenue	81,975	46,049
Other	10,195	13,886
	\$ 2,612,783	\$ 2,686,170

5. Notes Payable

Notes payable consisted of the following:

	March 31, 2022	December 31, 2021
Convertible Promissory Note	\$ 2,200,000	\$ 2,200,000
Less debt discount	(42,218)	(51,961)
Total debt	2,157,782	2,148,039
Less current portion	-	-
Long-term debt, less current portion	<u>\$ 2,157,782</u>	<u>\$ 2,148,039</u>

Convertible Promissory Notes

The Company is a party to convertible note purchase agreements (the "Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") dated February 7, 2020 and April 12, 2020, and convertible secured promissory notes dated 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 6% 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. The principal amount and all unpaid accrued interest on the Convertible Notes is payable on April 30, 2023. As of March 31, 2022, the outstanding principal balance on the Convertible Promissory Notes was \$2,157,782, net of the debt discount of \$42,218.

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. In addition, the Company exchanged a promissory note with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA with an outstanding balance of \$500,000 for a like amount of Convertible Notes. The Timothy E. Reilly IRA is 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 investment in the Convertible Notes transaction is a related party transaction.

6. Stockholders' Deficiency

The Company is authorized to issue up to 125,000,000 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

On January 17, 2022, the Company issued 150,000 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director fees for the fourth quarter of 2021. The shares had an aggregate grant date value of \$24,000 or \$0.16 per share, which was the 30-day weighted average closing share price on the grant date. Such amounts were included in accrued expenses and other current liabilities as of December 31, 2021.

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 March 31, 2022 and 2021. Such amounts were included in accrued expenses and other liabilities as of March 31, 2022 and 2021.

Preferred Stock

Series B Preferred Stock

As of March 31, 2022 and December 31, 2021, the Company had accrued contractual dividends of \$2,138,956 and \$2,053,398, 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 months ended March 31, 2022 and 2021, the Company used the following weighted average assumptions:

	For the Three Months Ended March 31	
	2022	2021
Risk-free interest rate	1.59% to 1.68%	0.32% to 0.45%
Expected dividend yield	0.0%	0.0%
Expected volatility	174.0% to 175.0%	178.0%
Weighted average expected life (contractual term) in years	5.5 to 6.0	5.5 to 6.0

Grants

The weighted average fair value of the stock options granted during the three months ended March 31, 2022 was \$0.16.

During the three months ended March 31, 2022, the Company granted stock options to purchase an aggregate 260,000 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees for the fourth quarter of 2021. The options had an exercise price of \$0.16 per share and had a grant date value of \$40,000. The aggregate amount of the grant date value of the options was included in accrued expenses as other liabilities as of December 31, 2021.

During the three months ended March 31, 2022, the Company granted stock options to key employees and two executives to purchase an aggregate of 4,700,000 shares of common stock under a previously approved plan at an exercise price

of \$0.16 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 \$728,354, 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 \$178,891 and \$154,535 for the three months ended March 31, 2022 and 2021, respectively. Of the total expense, \$40,000 was included in accrued expenses and other liabilities as of March 31, 2022 and 2021.

As of March 31, 2022, stock-based compensation expense related to stock options of \$1,165,627 remains unamortized which is being amortized over the weighted average remaining period of 2.3 years.

Summary

A summary of the stock option activity during the three months ended March 31, 2022 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2022	10,313,044	\$ 0.21		
Granted	4,960,000	0.16		
Exercised	-	-		
Forfeited	(64,333)	3.32		
Outstanding, March 31, 2022	<u>15,208,711</u>	<u>\$ 0.18</u>	<u>8.4</u>	<u>\$ 154,752</u>
Exercisable, March 31, 2022	<u>7,158,717</u>	<u>\$ 0.21</u>	<u>7.4</u>	<u>\$ 112,729</u>

The following table presents information related to stock options outstanding and exercisable at March 31, 2022:

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	\$ 0.15	12,847,603	\$ 0.14	8.0	4,797,609
\$0.22 - \$0.35	\$ 0.32	2,286,108	\$ 0.32	6.3	2,286,108
\$0.53 - \$1.60	\$ 0.87	66,000	\$ 0.87	1.5	66,000
\$4.10 - \$6.99	\$ 4.95	9,000	\$ 4.95	0.5	9,000
\$0.09 - \$6.99	\$ 0.18	<u>15,208,711</u>	\$ 0.21	7.4	<u>7,158,717</u>

Warrants

There was no stock-based compensation expense related to warrants in the three months ended March 31, 2022 and 2021. As of March 31, 2022, there was no unamortized stock-based compensation expense related to warrants.

A summary of the stock warrant activity during the three months ended March 31, 2022 is presented below:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life In Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2022	1,162,367	\$ 0.33		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding, March 31, 2022	<u>1,162,367</u>	<u>\$ 0.33</u>	<u>2.5</u>	<u>\$ 34,930</u>
Exercisable, March 31, 2022	<u>1,162,367</u>	<u>\$ 0.33</u>	<u>2.5</u>	<u>\$ 34,930</u>

The following table presents information related to stock warrants at March 31, 2022:

<u>Range of Exercise Price</u>	<u>Warrants Outstanding</u>		<u>Warrants Exercisable</u>		
	<u>Weighted Average Exercise Price</u>	<u>Outstanding Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life In Years</u>	<u>Exercisable Number of Warrants</u>
\$0.11 - \$0.25	\$ 0.12	799,000	\$ 0.12	3.4	799,000
\$0.30 - \$0.50	\$ 0.41	333,367	\$ 0.41	0.6	333,367
\$4.95	\$ 4.95	30,000	\$ 4.95	0.5	30,000
\$0.11 - \$4.95	\$ 0.33	<u>1,162,367</u>	\$ 0.33	2.5	<u>1,162,367</u>

7. Commitments and Contingent Liabilities

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 accounts for rent expense using the straight-line method of accounting, deferring the difference between actual rent due and the straight-line amount. Deferred rent payable of \$16,748 and \$16,969 as of March 31, 2022 and December 31, 2021, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

The aggregate future minimum lease payments for operating leases, excluding renewal periods, and capital leases as of March 31, 2022 were as follows:

Operating Leases

2022	79,794
2023	109,047
2024	112,318
Total	<u>\$ 301,159</u>

During the three months ended March 31, 2022 and 2021, the Company recorded aggregate rent expense of \$39,917 and \$33,018, respectively.

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, and an increase to \$150,000 and \$146,000 per year, respectively, effective January 1, 2022. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

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 January 21, 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 \$0.16 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. See Note 6.

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, except as described below..

On April 29, 2022, a class action complaint was filed in the United States District Court, Middle District of Florida against the Company (Cynthia Belle, Individually and on behalf of all others similarly situated, Plaintiff v. Heathwarehouse.com, Inc., Defendant). The Complaint alleges the Company sent unsolicited marketing text messages to the Plaintiff’s cellphone using an autodialer and/or computer software system that selected and dialed Plaintiff’s telephone number without his consent and that the Company did not provide the Plaintiff with instructions on how to opt of future text messages in violation of the Telephone Consumer Protection Act, 47 U.S.C Sections 227, et seq. (the TCPA”), and the Florida Telephone Solicitations Act, Fla. Stat. Section 501.059 (the FTSA”). The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, attorneys’ fees and statutory damages under the TCPA and FTSA. The Company believes the Complaint is without merit and intend to defend the suit vigorously. This case is in the early stages and the Company is unable to reasonably determine the outcome or estimate the loss, and as such, has not recorded a loss contingency.

8. 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.

During the three months ended March 31, 2022 and 2021, one customer represented 7% and 5% of total sales, respectively.

Four customers represented 45%, 23%, 13% and 11% of the accounts receivable balance (excluding the contract liabilities) as of March 31, 2022. Three customers represented 42%, 21% and 18% of the accounts receivable balance (excluding the contract liabilities) as of December 31, 2021.

During the three months ended March 31, 2022, two suppliers represented 32% and 23% of total inventory purchases. During the three months ended March 31, 2021, two suppliers represented 42% and 32% of total inventory purchases.

One vendor represented 37% of the accounts payable balance as of March 31, 2022. Two vendors represented 40% and 13% of the accounts payable balance as of December 31, 2021.

9. 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 above in Note 7 and as noted below:

Issuance of Common Stock and Options to Directors

On April 7, 2022, the Company issued an aggregate of 150,000 shares of common stock and options to purchase 283,248 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director’s fees for the first quarter of 2022. The shares had an aggregate grant date value of \$24,000 and were valued at \$0.16 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 exercise price of \$0.16 per share and had a grant date value of \$40,000. The aggregate amount of the grant date value of the common stock and options which totaled \$64,000 is included in accrued expenses as other liabilities as of March 31, 2022.