

# **HEALTHWAREHOUSE.COM, INC.**

A Delaware Corporation

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SIC Code: 5912 - Drugstores and Proprietary Stores

## **Quarterly Report**

**For the quarter ended September 30, 2022**

As of September 30, 2022, the number of shares outstanding of our Common Stock was 53,919,064.

As of June 30, 2022, the number of shares outstanding of our Common Stock was 53,799,064.

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 September 30, 2022:

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	53,919,064	15,132,580	185	252
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.

In July 2022, at the annual meeting of stockholders of the Company, the stockholders approved an amendment to the Company’s Certificate of Incorporation to increase the number of authorized shares of common stock that may be issued to 175,000,000, which was effective on July 28, 2022.

## 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
4/7/22	New	37,500	Common	\$0.16	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	\$0.16	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	\$0.16	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	\$0.16	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
6/6/22	Conversion	2,384	Series C Preferred	\$0.17	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	89	Series C Preferred	\$0.17	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	27	Series C Preferred	\$0.17	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	1,402,353	Common	\$0.17	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
6/6/22	Conversion	52,353	Common	\$0.17	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
6/6/22	Conversion	15,883	Common	\$0.17	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
7/11/22	New	30,000	Common	\$0.20	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	\$0.20	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	\$0.20	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	\$0.20	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
Number of Shares outstanding as of September 30, 2022		Ending Balance							
		Common		53,919,064					
		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 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 9/30/2022	Principal Amount at Issuance (\$)	Interest Accrued (\$) as of 9/30/2022	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 nine months ended September 30, 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 September 30, 2022 (unaudited) and December 31, 2021; Unaudited Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2022 and 2021; Unaudited Condensed Consolidated Statements of Changes in Stockholders’ Deficiency – Three and Nine Months Ended September 30, 2022 and 2021; Unaudited Condensed Consolidated Statements of Cash Flows –Nine Months Ended September 30, 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., 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.

Our objective is 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 September 30, 2022 Compared to the Three Months Ended September 30, 2021*

	For three months ended September 30, 2022	% of Net Sales	For three months ended September 30, 2021	% of Net Sales
<i>In thousands</i>				
Net sales	\$ 4,681	100.0%	\$ 4,212	100.0%
Cost of sales	1,519	32.5%	1,339	31.8%
Gross profit	3,162	67.5%	2,873	68.2%
Selling, general & administrative	3,347	71.5%	3,010	71.5%
Loss from operations	(185)	(4.0%)	(137)	(3.3%)
Interest expense, net	(41)	(0.9%)	(44)	(1.0%)
Net loss	<u>\$ (226)</u>	<u>(4.9%)</u>	<u>\$ (181)</u>	<u>(4.3%)</u>

## Net Sales

For the three months ended September 30, 2022	% Change	\$ Change	For the three months ended September 30, 2021
<i>In thousands</i>			
\$4,681	11.1%	\$469	\$4,212

Net sales for the three months ended September 30, 2022 increased to \$4.7 million from \$4.2 million for the three months ended September 30, 2021, an increase of \$469,000, or 11.1%. Prescription sales were \$3.9 million for the three months ended September 30, 2022, as compared to \$3.6 million for the three months ended September 30, 2021, an increase of \$232,000, or 6.4%. 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 46.2% from \$504,000 in the three months ended September 30, 2021 to \$736,000 in the three months ended September 30, 2022, primarily due to higher marketplace and partner services sales.

## Cost of Sales and Gross Margin

	For three months ended September 30, 2022	% Change	\$ Change	For three months ended September 30, 2021
<i>In thousands</i>				
Cost of sales	\$1,519	13.4%	180	\$1,339
Gross margin \$	\$3,162	10.1%	289	\$2,873
Gross margin %	67.5%	-0.7%		68.2%

Cost of sales were \$1.5 million for the three months ended September 30, 2022 as compared to \$1.3 million for the three months ended September 30, 2021, an increase of \$180,000 or 13.4%, primarily as a result of an increase in order volume. Gross profit for the three months ended September 30, 2022 was \$3.2 million, a \$289,000 or 10.1% increase when compared to the same period in 2021, due to the increase in sales volume and higher costs on our over-the-counter business. Gross margin percentage decreased slightly from 68.2% for the three months ended September 30, 2021 to 67.5% for the three months ended September 30, 2022, as a result of decreased margins in the DTC over-the-counter business and the lower margin partner services business representing a higher percentage of sales, offset by higher margins for the DTC prescription business.

## Selling, General and Administrative Expenses

	For three months ended September 30, 2022	% Change	\$ Change	For three months ended September 30, 2021
<i>In thousands</i>				
Selling, general and administrative expenses	\$3,347	11.2%	\$337	\$3,010
% of sales		71.5%		71.5%

Selling, general and administrative expenses totaled \$3.3 million for the three months ended September 30, 2022 compared to \$3.0 million for the three months ended September 30, 2021, an increase of \$337,000, or 11.2%. For the three months ended September 30, 2022, expense increases included: (a) a \$166,000 increase in salaries and related expenses, primarily in pharmacy, engineering and marketing; (b) a \$151,000 increase in shipping and shipping supplies expenses; and (c) a \$31,000 increase in software expense. Those increases were offset by a \$23,000 reduction in advertising and marketing expenses.

## Other Income and Expense

Net interest expense decreased slightly from \$44,000 in the three months ended September 30, 2021 to \$41,000 in the three months ended September 30, 2022, a decrease of \$3,000, or 6.4%, primarily due to a decrease in amortization of debt discounts related to the issuance of convertible notes and an increase in interest income. Interest income increased from \$1,000 in the three months ended September 30, 2021 to \$2,000 for the three months ended September 30, 2022 as higher returns were realized on interest bearing money market accounts, offset by lower invested balances.

***For the Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021***

	For nine months ended September 30, 2022	% of Net Sales	For nine months ended September 30, 2021	% of Net Sales
<i>In thousands</i>				
Net sales	\$ 13,196	100.0%	\$ 11,985	100.0%
Cost of sales	4,290	32.5%	3,728	31.1%
Gross profit	8,906	67.5%	8,257	68.9%
Selling, general & administrative	9,514	72.2%	8,620	71.9%
Loss from operations	(608)	(4.7%)	(363)	(3.0%)
Interest expense, net	(125)	(0.9%)	(131)	(1.1%)
Net loss	\$ (733)	(5.6%)	\$ (494)	(4.1%)

**Net Sales**

For the nine months ended September 30, 2022	% Change	\$ Change	For the nine months ended September 30, 2021
<i>In thousands</i>			
\$13,196	10.1%	\$1,211	\$11,985

Net sales for the nine months ended September 30, 2022 increased to \$13.2 million from \$11.9 million for the nine months ended September 30, 2021, an increase of \$1.2 million, or 10.1%. Prescription sales were \$10.7 million for the nine months ended September 30, 2022, as compared to \$10.1 million for the nine months ended September 30, 2021, an increase of \$546,000, or 5.4%, due to an increase in new partner services business, which was offset by a reduction in the direct-to-consumer (DTC) business. Over-the-counter net sales increased by \$595,000 or 36.3% from \$1.6 million in the nine months ended September 30, 2021 to \$2.2 million in the nine months ended September 30, 2022, primarily due to the sales of test kits, supplements related to COVID 19, higher marketplace and partner services sales.

**Cost of Sales and Gross Margin**

	For nine months ended September 30, 2022	% Change	\$ Change	For nine months ended September 30, 2021
<i>In thousands</i>				
Cost of sales	\$4,290	15.1%	562	\$3,728
Gross margin \$	\$8,906	7.9%	649	\$8,257
Gross margin %	67.5%	-1.4%		68.9%

Cost of sales were \$4.3 million for the nine months ended September 30, 2022 as compared to \$3.7 million for the nine months ended September 30, 2021, an increase of \$562,000 or 15.1%, primarily as a result of an increase in order volume. Gross profit for the nine months ended September 30, 2022 was \$8.9 million, a \$649,000 or 7.9% increase when compared to the same period in 2021, due to the increase in sales volume, which was offset by higher costs on over-the-counter business. Gross margin percentage decreased from



68.9% for the nine months ended September 30, 2021 to 67.5% for the nine months ended September 30, 2022, as a result of decreased margins in the DTC over-the-counter business and the lower margin partner services business representing a higher percentage of sales, offset by higher margins for the DTC prescription business.

### **Selling, General and Administrative Expenses**

	For nine months ended September 30, 2022	% Change	\$ Change	For nine months ended September 30, 2021
<i>In thousands</i>				
<b>Selling, general and administrative expenses</b>	\$9,514	10.4%	\$894	\$8,620
<b>% of sales</b>	72.1%			71.9%

Selling, general and administrative expenses totaled \$9.5 million for the nine months ended September 30, 2022 compared to \$8.6 million for the nine months ended September 30, 2021, an increase of \$894,000, or 10.4%. For the nine months ended September 30, 2022, expense increases included: (a) a \$394,000 increase in salaries and related expenses; (b) a \$263,000 increase in shipping and shipping supplies expenses; (c) a \$64,000 increase in software expense; (d) a \$36,000 increase in advertising and marketing expenses; (e) a \$34,000 increase in stock-based compensation expense; and (f) a \$25,000 increase in computer hardware expense.

### **Other Income and Expense**

Net interest expense decreased from \$131,000 in the nine months ended September 30, 2022 to \$126,000 in the nine months ended September 30, 2022, a decrease of \$5,000, or 3.9%, 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 9.4% to \$3,000 in the nine months ended September 30, 2022 as lower returns were realized on interest bearing money market accounts and 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 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 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 September 30,		For nine months ended September 30,	
	2022	2021	2022	2021
	<i>In thousands</i>			
Net loss	\$ (225)	\$ (181)	\$ (733)	\$ (494)
Interest expense	41	44	125	131
Depreciation and amortization	34	34	101	101
EBITDA (non-GAAP)	(150)	(103)	(507)	(262)
Adjustments to EBITDA:				
Stock-based compensation	198	193	598	564
Adjusted EBITDA	\$ 48	\$ 90	\$ 91	\$ 302

### 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 nine months ended September 30, 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 nine months ended September 30, 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 \$572,000 at December 31, 2021 to \$3.2 million as of September 30, 2022 (due to the reclassification of the convertible notes of \$2.1 million from long-term to short-term liabilities) and the stockholder deficiency increased from \$2.8 million at December 31, 2021 to \$2.9 million as of September 30, 2022. For the nine months ended September 30, 2022, the Company had a net loss of \$733,000 and had net cash used in operating activities of \$659,000 for the nine months ended September 30, 2022. As of September 30, 2022, the Company had cash and liquid investments totaling \$1.3 million.

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. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2.3 million 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 Company has generated a net loss for the first nine months of this year, it was primarily the result of the Company's discretionary investment in engineering resources and advertising. In the event that the Company cannot negotiate an extension of the maturity date of the Convertible Notes or the notes are not converted into shares of common stock before that date, 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. 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.

As of September 30, 2022 and December 31, 2021, the Company had cash on hand of \$1.3 million and \$2.2 million, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the nine months ended September 30, 2022, cash flows included net cash used in operating activities of \$659,000. This amount included a decrease in operating cash related to a net loss of \$733,000, offset by aggregate non-cash adjustments of \$728,000 and aggregate cash used by changes in operating assets and liabilities of \$654,000 (primarily a result of an increase in accounts receivable and inventories and a reduction in accrued wages offset by an increase in accounts payable and accrued expenses). For the nine months ended September 30, 2021, cash flows included net cash provided by operating activities of \$297,000. This amount included a decrease in operating cash related to net loss of \$494,000, offset by aggregate non-cash adjustments of \$699,000 and aggregate cash provided by changes in operating assets and liabilities of \$91,000 (primarily a result of an increase in accounts payable and a decrease in receivables offset by a reduction in accrued expenses and an increase in inventories).

For the nine months ended September 30, 2022, net cash used in investing activities was \$175,000 primarily related to software development costs to be capitalized and computer equipment. For the nine months ended September 30, 2021, the Company used \$30,000 in investing activities which were primarily related to software development costs to be capitalized.

For the nine months ended September 30, 2022 and 2021, the Company had no financing activities.

#### **Changes in Financial Condition**

The Company's total assets were \$3.6 million at September 30, 2022, a decrease of \$4,000 from \$3.6 million at December 31, 2021, primarily due to a decrease in cash on hand offset by increases in accounts receivables, inventory, prepaid expenses, other receivables and property and equipment. Total liabilities were \$5.9 million at September 30, 2022, an increase of \$388,000 from the balance at December 31, 2021 of \$5.5 million primarily due to an increase in dividend payable, accounts payable and sales tax payable offset by a reduction in accrued wages.

**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.

**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: November 10, 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: November 10, 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**

	(Unaudited) September 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,345,505	\$ 2,179,070
Accounts receivable	545,198	148,375
Inventories	572,385	281,252
Prepaid expenses and other current assets	244,646	176,891
Total current assets	2,707,734	2,785,588
Property and equipment, net	908,907	834,809
Total assets	<u>\$ 3,616,641</u>	<u>\$ 3,620,397</u>
<b>Liabilities and Stockholders' Deficiency</b>		
Current liabilities:		
Accounts payable	\$ 759,660	\$ 671,463
Accrued expenses and other current liabilities	2,956,845	2,686,170
Convertible notes payable, net of debt discount of \$22,733 as of September 30, 2022	2,177,267	-
Total current liabilities	5,893,772	3,357,633
Long term liabilities:		
Convertible notes payable, net of debt discount of \$51,961 as December 31, 2021	-	2,148,039
Total long term liabilities	-	2,148,039
Total liabilities	5,893,772	5,505,672
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 and 9,000 as of September 30, 2022 and December 31, 2021 (aggregate liquidation preference of \$650,000 and \$900,000 as of September 30, 2022 and December 31, 2021, respectively)	650,000	900,000
Stockholders' deficiency:		
Preferred stock – par value \$0.001 per share; authorized 1,000,000 shares; issued and outstanding as of September 30, 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 September 30, 2022 and December 31, 2021 (aggregate liquidation preference of \$7,199,115 and \$6,942,441 as of September 30, 2022 and December 31, 2021, respectively)	517	517
Common stock – par value \$0.001 per share; 175,000,000 and 125,000,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 58,098,276 and 53,207,687 shares issued and 53,919,064 and 52,028,475 shares outstanding as of September 30, 2022 and December 31, 2021, respectively	55,098	53,207
Additional paid-in capital	36,523,625	35,677,572
Treasury stock, at cost, 1,179,212 shares as of September 30, 2022 and December 31, 2021	(3,419,715)	(3,419,715)
Accumulated deficit	(36,086,656)	(35,096,856)
Total stockholders' deficiency	(2,927,131)	(2,785,275)
Total liabilities and stockholders' deficiency	<u>\$ 3,616,641</u>	<u>\$ 3,620,397</u>

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 September 30,		(Unaudited) For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Total net sales	\$ 4,681,302	\$ 4,212,127	\$ 13,196,113	\$ 11,985,304
Cost of sales	<u>1,519,334</u>	<u>1,339,420</u>	<u>4,289,681</u>	<u>3,728,458</u>
Gross profit	3,161,968	2,872,707	8,906,432	8,256,846
Selling, general and administrative expenses	<u>3,346,699</u>	<u>3,010,060</u>	<u>9,514,046</u>	<u>8,620,158</u>
Loss from operations	(184,731)	(137,353)	(607,614)	(363,312)
Interest expense, net	<u>(40,883)</u>	<u>(43,678)</u>	<u>(125,511)</u>	<u>(130,554)</u>
Net loss	(225,614)	(181,031)	(733,125)	(493,866)
Preferred stock:				
Series B convertible preferred stock contractual dividends	<u>(85,558)</u>	<u>(85,558)</u>	<u>(256,675)</u>	<u>(256,675)</u>
Net loss attributable to common stockholders	<u>\$ (311,172)</u>	<u>\$ (266,589)</u>	<u>\$ (989,800)</u>	<u>\$ (750,541)</u>
Per share data:				
Net loss – basic and diluted	\$ (0.00)	(0.00)	\$ (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>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>53,904,716</u>	<u>51,884,998</u>	<u>52,926,308</u>	<u>51,751,431</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 THREE MONTHS ENDED SEPTEMBER 30, 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, July 1, 2021	9,000	\$ 900,000	517,359	\$ 517	52,941,023	\$ 52,940	\$ 35,264,147	1,179,212	\$ (3,419,715)	\$ (34,666,074)	\$ (2,768,185)
Stock-based compensation	-	-	-	-	-	-	168,960	-	-	-	168,960
Common shares issued for previously accrued compensation	-	-	-	-	133,332	133	23,867	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Net loss	-	-	-	-	-	-	-	-	-	(181,030)	(181,030)
Balances, September 30, 2021	9,000	\$ 900,000	517,359	\$ 517	53,074,355	\$ 53,073	\$ 35,456,974	1,179,212	\$ (3,419,715)	\$ (34,932,662)	\$ (2,841,813)
Balances, July 1, 2022	6,500	\$ 650,000	517,359	\$ 517	53,799,064	\$ 54,978	\$ 36,325,621	1,179,212	\$ (3,419,715)	\$ (35,775,484)	\$ (2,814,083)
Stock-based compensation	-	-	-	-	-	-	174,124	-	-	-	174,124
Common Shares issued for previously accrued compensation	-	-	-	-	120,000	120	23,880	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Net loss	-	-	-	-	-	-	-	-	-	(225,614)	(225,614)
Balances, September 30, 2022	6,500	\$ 650,000	517,359	\$ 517	53,919,064	\$ 55,098	\$ 36,523,625	1,179,212	\$ (3,419,715)	\$ (36,086,656)	\$ (2,927,131)

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 NINE MONTHS ENDED SEPTEMBER 30, 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	-	-	-	-	253,332	253	539,837	-	-	-	540,090
Common shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(256,675)	(256,675)
Net loss	-	-	-	-	-	-	-	-	-	(493,866)	(493,866)
Balances, September 30, 2021	<u>9,000</u>	<u>\$ 900,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>53,074,355</u>	<u>\$ 53,073</u>	<u>\$ 35,456,974</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (34,932,662)</u>	<u>\$ (2,841,813)</u>
Balances, January 1, 2022	9,000	\$ 900,000	517,359	\$ 517	52,028,475	\$ 53,207	\$ 35,677,572	1,179,212	\$ (3,419,715)	\$ (35,096,856)	\$ (2,785,275)
Stock-based compensation	-	-	-	-	270,000	270	573,674	-	-	-	573,944
Common Shares issued for previously accrued compensation	-	-	-	-	150,000	150	23,850	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(256,675)	(256,675)
Conversion of Series C Preferred shares to Common shares	(2,500)	(250,000)	-	-	1,470,589	1,471	248,529	-	-	-	250,000
Net loss	-	-	-	-	-	-	-	-	-	(733,125)	(733,125)
Balances, September 30, 2022	<u>6,500</u>	<u>\$ 650,000</u>	<u>517,359</u>	<u>\$ 517</u>	<u>53,919,064</u>	<u>\$ 55,098</u>	<u>\$ 36,523,625</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (36,086,656)</u>	<u>\$ (2,927,131)</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**

	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (733,125)	\$ (493,866)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	100,559	100,769
Stock-based compensation	597,944	564,090
Amortization of debt discount	29,228	34,551
Changes in operating assets and liabilities:		
Accounts receivable	(396,823)	49,571
Inventories	(291,133)	(104,409)
Prepaid expenses and other current assets	(67,755)	(113,731)
Accounts payable	88,197	187,602
Accrued expenses and other current liabilities	14,000	71,933
Net cash provided by (used in) operating activities	<u>(658,908)</u>	<u>296,510</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	<u>(174,657)</u>	<u>(29,896)</u>
Net cash used in investing activities	<u>(174,657)</u>	<u>(29,896)</u>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in cash	(833,565)	266,614
Cash, cash equivalents and restricted cash - beginning of period	<u>2,179,070</u>	<u>1,865,425</u>
Cash, cash equivalents and restricted cash - end of period	<u>\$ 1,345,505</u>	<u>\$ 2,132,039</u>
Cash paid for:		
Interest	\$ 99,000	\$ 99,000
<b>Non-cash investing and financing activities:</b>		
Accrual of contractual dividends on Series B convertible preferred stock	\$ 256,675	\$ 256,675
Common stock issued to satisfy accrued directors' fees	\$ 72,000	\$ 72,000
Options issued to satisfy accrued directors' fees	\$ 120,000	\$ 120,000
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 \$3,186,038 and the stockholder deficiency was \$2,927,131 as of September 30, 2022. For the nine months ended September 30, 2022, the Company had a net loss of \$733,125 and used net cash from operating activities of \$658,908. As of September 30, 2022, the Company had cash and cash equivalents totaling \$1,345,505.

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. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$2,310,072 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 Company has generated a net loss for the first nine months of this year, it was primarily the result of the Company's discretionary investment in engineering resources and advertising. In the event that the Company cannot negotiate an extension of the maturity date of the Convertible Notes or the notes are not converted into shares of common stock before that date, 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. 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.

**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. The impact of this IR Act does not have an impact in 2022 and may possibly impact the financial statements and the Company's financial condition, results of operations, and cash flows after January 1, 2023.

### *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 shipment 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.

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 capitalized and amortized over the term of the contract with the customer.

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 nine months ended September 30, 2022 and 2021.

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
B2C Sales	\$3,112,930	\$3,502,609	\$9,783,521	\$10,274,629
Partner Services Sales	1,567,835	708,206	3,365,439	1,707,299
Other Sales	537	1,312	47,153	3,376
Total Sales	<u>\$4,681,302</u>	<u>\$4,212,127</u>	<u>\$13,196,113</u>	<u>\$11,985,304</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 \$99,593 and \$42,935 as of September 30, 2022 and 2021, respectively, which were comprised of (i) customer deposits of \$70,760 and \$42,935 as of September 30, 2022 and 2021, respectively, which represented refundable customer deposits that were recorded as a reduction of accounts receivable and (ii) deferred revenue of \$28,833 as of September 30, 2022 related to upfront payments received from customers that are being amortized over the term of the contract. During the three and nine months ended September 30, 2022, the Company recognized revenue of \$14,500 and \$29,167, respectively, related to the amortization of the upfront payments. Other than accounts receivable, there were no contract assets as of September 30, 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:

	<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>
Options	15,570,259	10,224,751
Warrants	1,102,367	898,367
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Redeemable Convertible Preferred Stock	4,924,243	5,000,000
Convertible Notes Payable	17,708,338	17,708,338
Total potentially dilutive shares	46,962,121	41,488,370

#### 4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Salaries and Benefits	\$ 95,777	\$ 197,935
Dividend Payable	2,310,072	2,053,398
Accounting	120,738	97,138
Accrued Corporate and Property Taxes	32,077	34,002
Accrued Interest	28,435	28,435
Deferred Rent	15,524	16,969
Sales Tax Payable	112,690	51,658
Shipping	18,000	-
Advertising	40,733	35,700
Accrued Engineering Fees	47,000	47,000
Accrued Director Fees	64,000	64,000
Deferred Revenue	35,995	46,049
Other	35,804	13,886
	<u>\$ 2,956,845</u>	<u>\$ 2,686,170</u>

#### 5. Notes Payable

Notes payable consisted of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Convertible Promissory Note	\$ 2,200,000	\$ 2,200,000
Less debt discount	(22,733)	(51,961)
Total debt	2,177,267	2,148,039
Less current portion	(2,177,267)	-
Long-term debt, less current portion	<u>\$ -</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 September 30, 2022, the outstanding principal balance on the Convertible Promissory Notes was \$2,177,267, net of the debt discount of \$22,733.

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 ("Millennium Trust IRA"). In addition, the Company exchanged a promissory note with Millennium Trust 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.

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. 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.

In July 2022, 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 175,000,000, which was effective on July 28, 2022.

### *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.

On April 7, 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 first quarter of 2022. 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.

On July 8, 2022, the Company issued 120,000 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director fees for the second quarter of 2022. The shares had an aggregate grant date value of \$24,000 or \$0.20 per share, which was the 30-day weighted average closing share price on the grant date.

See Preferred Stock – Series C note below.

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 September 30, 2022 and 2021 and \$72,000 for the nine months ended September 30, 2022 and 2021. Stock-based compensation of \$24,000 is included in accrued expenses and other liabilities as of September 30, 2022.

## ***Preferred Stock***

### *Series B Preferred Stock*

As of September 30, 2022 and December 31, 2021, the Company had accrued contractual dividends of \$2,310,072 and \$2,053,398, respectively, related to the Series B Preferred Stock.

### *Series C Preferred Stock*

On June 6, 2022, the Company received notice that the holders elected to convert 2,500 of the shares of the Series C Preferred Stock with a principal amount of \$250,000 at the \$0.17 conversion price. The Company has subsequently issued 1,470,589 shares of common stock to the holders and the number of outstanding shares of Series C Preferred Stock was reduced to 6,500 shares.

## ***Stock Options***

### *Valuation*

In applying the Black-Scholes option pricing model to stock options granted during the three and nine months ended September 30, 2022 and 2021, the Company used the following weighted average assumptions:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Risk-free interest rate	3.13%	0.89%	1.59% to 3.13%	0.32% to 0.99%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	134%	177%	134% to 175%	177% to 178%
Weighted average expected life (contractual term) in years	5.0	5.5	5.0 to 6.0	5.5 to 6.0

### *Grants*

The weighted average fair value of the stock options granted during the nine months ended September 30, 2022 was \$0.16.

During the nine months ended September 30, 2022, the Company granted stock options to purchase an aggregate 771,548 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 ranging from \$0.16 to \$0.20 per share and had an aggregate grant date value of \$120,000, of which \$40,000 was included in accrued expenses as other liabilities as of December 31, 2021.

During the nine months ended September 30, 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 \$174,124 and \$525,945 for the three and nine months ended September 30, 2022, respectively, and \$168,940 and \$492,090 for the three and nine months ended September 30, 2021, respectively.

As of September 30, 2022, stock-based compensation expense related to stock options of \$877,898 remains unamortized which is being amortized over the weighted average remaining period of 1.9 years.

### Summary

A summary of the stock option activity during the three months ended September 30, 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	5,471,548	0.16		
Exercised	-	-		
Forfeited	(214,333)	1.11		
Outstanding, September 30, 2022	15,570,259	\$ 0.18	7.9	\$ 154,752
Exercisable, September 30, 2022	7,653,598	\$ 0.21	7.1	\$ 112,729

The following table presents information related to stock options outstanding and exercisable at September 30, 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	13,209,151	\$ 0.15	7.7	5,292,490
\$0.22 - \$0.35	\$ 0.32	2,286,108	\$ 0.32	5.8	2,286,108
\$0.53 - \$1.60	\$ 0.87	66,000	\$ 0.87	1.0	66,000
\$4.10 - \$6.99	\$ 4.95	9,000	\$ 4.95	0.1	9,000
\$0.09 - \$6.99	\$ 0.18	15,570,259	\$ 0.21	7.1	7,653,598

## Warrants

There was no stock-based compensation expense related to warrants in the nine months ended September 30, 2022 and 2021. As of September 30, 2022, there was no unamortized stock-based compensation expense related to warrants.

A summary of the stock warrant activity during the three months ended September 30, 2022 is presented below:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life In Years</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, January 1, 2022	1,162,367	\$ 0.33		
Granted	-	-		
Exercised	-	-		
Forfeited	(60,000)	0.34		
Outstanding, September 30, 2022	<u>1,102,367</u>	<u>\$ 0.33</u>	<u>2.1</u>	<u>\$ 34,930</u>
Exercisable, September 30, 2022	<u>1,102,367</u>	<u>\$ 0.33</u>	<u>2.1</u>	<u>\$ 34,930</u>

The following table presents information related to stock warrants at September 30, 2022:

<b>Range of Exercise Price</b>	<b>Warrants Outstanding</b>		<b>Warrants Exercisable</b>		
	<b>Weighted Average Exercise Price</b>	<b>Outstanding Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life In Years</b>	<b>Exercisable Number of Warrants</b>
\$0.11 - \$0.25	\$ 0.11	764,000	\$ 0.11	3.0	764,000
\$0.30 - \$0.50	\$ 0.41	308,367	\$ 0.41	0.2	308,367
\$4.95	\$ 4.95	30,000	\$ 4.95	0.1	30,000
\$0.11 - \$4.95	\$ 0.33	<u>1,102,367</u>	\$ 0.33	2.1	<u>1,102,367</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 \$15,524 and \$16,969 as of September 30, 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 September 30, 2022 were as follows:

### **Operating Leases**

2022	26,859
2023	109,047
2024	112,318
Total	<u>\$ 248,224</u>

During the three months and nine months ended September 30, 2022, the Company recorded aggregate rent expense of \$43,242 and \$124,002, respectively. During the three months and nine months ended September 30, 2021, the Company recorded aggregate rent expense of \$38,523 and \$110,065, 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 Agreements include a term of one year beginning on January 1, 2020 with a provision allowing for automatic one-year extensions each year unless the Company or the employee provides advanced written notice of non-renewal. The Employment Agreements provide 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 employees 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.

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. However, the Complaint was voluntarily dismissed without prejudice by the Plaintiff on July 11, 2022.

## 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 September 30, 2022 and 2021, one customer represented 10% and 5% of total sales, respectively. During the nine months ended September 30, 2022 and 2021, one customer represented 9% and 6% of total sales, respectively.

Four customers represented 31%, 21%, 12% and 12% of the accounts receivable balance (excluding the contract liabilities) as of September 30, 2022. Three customers represented 42%, 21% and 18% of the accounts receivable balance (excluding the contract liabilities) as of December 31, 2021.

Three suppliers represented 38%, 32% and 10% of total inventory purchases the three months ended September 30, 2022 and three suppliers represented 35%, 29% and 11% during the nine months ended September 30, 2022. Three suppliers represented 34%, 30% and 14% of total inventory purchases the three months ended September 30, 2021 and three suppliers represented 34%, 33% and 12% during the nine months ended September 30, 2021.

One vendor represented 45% of the accounts payable balance as of September 30, 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 below:

### *Issuance of Common Stock and Options to Directors*

On October 13, 2022, the Company issued an aggregate of 141,176 shares of common stock and options to purchase 269,288 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director’s fees for the third quarter of 2022. 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 options had an exercise price of \$0.17 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 September 30, 2022.