

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2022

or

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

For the Transition Period from _____ to _____

Commission file number: 001-39785

LIFEMD, INC.

(Exact name of registrant as specified in its charter)

Delaware

76-0238453

(State or other Jurisdiction
of Incorporation or Organization)

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

**236 Fifth Avenue, Suite 400
New York, New York**

10001

(Address of Principal Executive Offices)

(Zip Code)

(866) 351-5907

(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of exchange on which registered |
|--|-------------------|--------------------------------------|
| Common Stock, par value \$.01 per share | LFMD | The Nasdaq Global Market |
| Series A Cumulative Perpetual Preferred Stock, par value \$0.0001 per share | LFMDP | The Nasdaq Global Market |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

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

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

As of May 12, 2022, there were 30,796,429 shares of the registrant's common stock outstanding.

LIFEMD, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2022

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LIFEMD, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | <u>March 31, 2022</u> | <u>December 31, 2021</u> |
|--|-----------------------|--------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 25,084,644 | \$ 41,328,039 |
| Accounts receivable, net | 1,796,502 | 980,055 |
| Product deposit | 615,293 | 203,556 |
| Inventory, net | 1,240,034 | 1,616,600 |
| Other current assets | 842,989 | 793,190 |
| Total Current Assets | 29,579,462 | 44,921,440 |
| Non-current assets | | |
| Equipment, net | 506,367 | 233,805 |
| Right of use asset, net | 1,633,924 | 1,752,448 |
| Capitalized software, net | 4,710,120 | 2,995,789 |
| Goodwill and intangible assets, net | 13,860,603 | 19,761 |
| Total Non-current Assets | 20,711,014 | 5,001,803 |
| Total Assets | <u>\$ 50,290,476</u> | <u>\$ 49,923,243</u> |
| LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 11,676,030 | \$ 9,059,214 |
| Accrued expenses | 11,550,232 | 11,595,605 |
| Notes payable, net | 63,400 | 63,400 |
| Current operating lease liabilities | 534,451 | 607,490 |
| Deferred revenue | 1,788,555 | 1,499,880 |
| Total Current Liabilities | 25,612,668 | 22,825,589 |
| Long-term Liabilities | | |
| Noncurrent operating lease liabilities | 1,206,082 | 1,178,544 |
| Contingent consideration | 5,701,000 | 100,000 |
| Purchase price payable | 1,415,655 | - |
| Total Liabilities | 33,935,405 | 24,104,133 |
| Commitments and Contingencies (Note 9) | | |
| Mezzanine Equity | | |
| Preferred Stock, \$0.0001 par value; 5,000,000 shares authorized Series B Preferred Stock, \$0.0001 par value; 5,000 shares authorized, 3,500 and 3,500 shares issued and outstanding, liquidation value approximately, \$1,207 and \$1,175 per share as of March 31, 2022 and December 31, 2021, respectively | 4,223,014 | 4,110,822 |
| Stockholders' Equity | | |
| Series A Preferred Stock, \$0.0001 par value; 1,610,000 shares authorized, 1,400,000 shares issued and outstanding, liquidation value approximately, \$26.17 and \$25.62 per share as of March 31, 2022 and December 31, 2021, respectively | 140 | 140 |
| Common stock, \$0.01 par value; 100,000,000 shares authorized, 30,899,469 and 30,704,434 shares issued, 30,796,429 and 30,601,394 outstanding as of March 31, 2022 and December 31, 2021, respectively | 308,995 | 307,045 |
| Additional paid-in capital | 169,026,965 | 164,517,634 |
| Accumulated deficit | (155,997,323) | (141,921,085) |
| Treasury stock, 103,040 and 103,040 shares, at cost | (163,701) | (163,701) |
| Total LifeMD, Inc. Stockholders' Equity | 13,175,076 | 22,740,033 |
| Non-controlling interest | (1,043,019) | (1,031,745) |
| Total Stockholders' Equity | 12,132,057 | 21,708,288 |
| Total Liabilities, Mezzanine Equity and Stockholders' Equity | <u>\$ 50,290,476</u> | <u>\$ 49,923,243</u> |

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

LIFEMD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------------|
| | 2022 | 2021 |
| Revenues | | |
| Telehealth revenue, net | \$ 22,598,061 | \$ 13,283,315 |
| WorkSimpli revenue, net | 6,444,776 | 4,914,797 |
| Total revenues, net | 29,042,837 | 18,198,112 |
| Cost of revenues | | |
| Cost of telehealth revenue | 5,086,068 | 3,123,025 |
| Cost of WorkSimpli revenue | 162,107 | 88,032 |
| Total cost of revenues | 5,248,175 | 3,211,057 |
| Gross profit | 23,794,662 | 14,987,055 |
| Expenses | | |
| Selling and marketing expenses | 21,909,825 | 18,640,731 |
| General and administrative expenses | 12,302,478 | 7,021,541 |
| Other operating expenses | 1,327,734 | 636,787 |
| Customer service expenses | 933,307 | 295,277 |
| Development costs | 428,333 | 311,056 |
| Total expenses | 36,901,677 | 26,905,392 |
| Operating loss | (13,107,015) | (11,918,337) |
| Interest expense, net | (167,934) | (139,463) |
| Gain on debt forgiveness | - | 184,914 |
| Net loss | (13,274,949) | (11,872,886) |
| Net income (loss) attributable to non-controlling interest | 24,726 | (270,503) |
| Net loss attributable to LifeMD, Inc. | (13,299,675) | (11,602,383) |
| Preferred stock dividends | (776,563) | - |
| Net loss attributable to LifeMD, Inc. common stockholders | \$ (14,076,238) | \$ (11,602,383) |
| Basic loss per share attributable to LifeMD, Inc. common stockholders | \$ (0.46) | \$ (0.47) |
| Diluted loss per share attributable to LifeMD, Inc. common stockholders | \$ (0.46) | \$ (0.47) |
| Weighted average number of common shares outstanding: | | |
| Basic | 30,853,118 | 24,467,788 |
| Diluted | 30,853,118 | 24,467,788 |

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

LIFEMD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

| | LifeMD, Inc. | | | | | | | | | |
|---|--------------------------|--------|--------------|------------|----------------------------|---------------------|----------------|----------------|--------------------------|----------------|
| | Series A Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total | Non-controlling Interest | Total |
| | Shares | Amount | Shares | Amount | | | | | | |
| Balance, January 1, 2021 | - | \$ - | 23,433,663 | \$ 234,337 | \$ 77,779,370 | \$ (80,151,905) | \$ (163,701) | \$ (2,301,899) | \$ (2,175,687) | \$ (4,477,586) |
| Stock compensation | - | - | 1,203,750 | 12,038 | 2,313,737 | - | - | 2,325,775 | - | 2,325,775 |
| Cashless exercise of stock options | - | - | 608,905 | 6,089 | (6,089) | - | - | - | - | - |
| Exercise of stock options | - | - | 30,000 | 300 | 23,700 | - | - | 24,000 | - | 24,000 |
| Sale of stock in private placement, net | - | - | 608,696 | 6,087 | 13,489,183 | - | - | 13,495,270 | - | 13,495,270 |
| Distribution to non-controlling interest | - | - | - | - | - | - | - | - | (36,000) | (36,000) |
| Purchase of additional membership interest of WSS | - | - | - | - | (377,419) | - | - | (377,419) | (66,603) | (444,022) |
| Adjustment of noncontrolling interest for additional investment | - | - | - | - | (1,636,875) | - | - | (1,636,875) | 1,780,897 | 144,022 |
| Net loss | - | - | - | - | - | (11,602,383) | - | (11,602,383) | (270,503) | (11,872,886) |
| Balance, March 31, 2021 | - | - | 25,885,014 | \$ 258,851 | \$ 91,585,607 | \$ (91,754,288) | \$ (163,701) | \$ (73,531) | \$ (767,896) | \$ (841,427) |

| | LifeMD, Inc. | | | | | | | | | |
|--|--------------------------|--------|--------------|------------|----------------------------|---------------------|----------------|---------------|--------------------------|---------------|
| | Series A Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total | Non-controlling Interest | Total |
| | Shares | Amount | Shares | Amount | | | | | | |
| Balance, January 1, 2022 | 1,400,000 | \$ 140 | 30,704,434 | \$ 307,045 | \$ 164,517,634 | \$ (141,921,085) | \$ (163,701) | \$ 22,740,033 | \$ (1,031,745) | \$ 21,708,288 |
| Stock compensation | - | - | 147,500 | 1,475 | 4,471,306 | - | - | 4,472,781 | - | 4,472,781 |
| Cashless exercise of stock options | - | - | 25,535 | 255 | (255) | - | - | - | - | - |
| Exercise of warrants | - | - | 22,000 | 220 | 38,280 | - | - | 38,500 | - | 38,500 |
| Series A Preferred Stock Dividend | - | - | - | - | - | (776,563) | - | (776,563) | - | (776,563) |
| Distribution to non-controlling interest | - | - | - | - | - | - | - | - | (36,000) | (36,000) |
| Net (loss) income | - | - | - | - | - | (13,299,675) | - | (13,299,675) | 24,726 | (13,274,949) |
| Balance, March 31, 2022 | 1,400,000 | \$ 140 | 30,899,469 | \$ 308,995 | \$ 169,026,965 | \$ (155,997,323) | \$ (163,701) | \$ 13,175,076 | \$ (1,043,019) | \$ 12,132,057 |

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

LIFEMD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|----------------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (13,274,949) | \$ (11,872,886) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of debt discount | - | 80,051 |
| Amortization of capitalized software | 383,812 | 24,451 |
| Amortization of intangibles | 114,394 | 83,903 |
| Depreciation of fixed assets | 32,477 | - |
| Gain on forgiveness of debt | - | (184,914) |
| Operating lease payments | 118,524 | 24,588 |
| Stock compensation expense | 4,472,781 | 2,325,775 |
| Changes in Assets and Liabilities | | |
| Accounts receivable | (816,447) | (703,022) |
| Product deposit | (411,737) | (483,478) |
| Inventory | 383,734 | (410,123) |
| Other current assets | (49,799) | 50,075 |
| Change in operating lease liability | (45,501) | (21,922) |
| Deferred revenue | 288,675 | 422,429 |
| Accounts payable | 2,477,466 | 124,633 |
| Accrued expenses | (1,764,573) | 1,433,611 |
| Net cash used in operating activities | <u>(8,091,143)</u> | <u>(9,106,829)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for capitalized software costs | (2,098,143) | (48,860) |
| Purchase of equipment | (267,151) | - |
| Purchase of intangible assets | (4,000,500) | - |
| Acquisition of business, net of cash acquired | (1,012,395) | - |
| Net cash used in investing activities | <u>(7,378,189)</u> | <u>(48,860)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash proceeds from private placement offering, net | - | 13,495,270 |
| Cash proceeds from exercise of options | - | 24,000 |
| Cash proceeds from exercise of warrants | 38,500 | - |
| Preferred stock dividends | (776,563) | - |
| Purchase of membership interest of WSS | - | (100,000) |
| Distributions to non-controlling interest | (36,000) | (36,000) |
| Net cash (used in) provided by financing activities | <u>(774,063)</u> | <u>13,383,270</u> |
| Net (decrease) increase in cash | <u>(16,243,395)</u> | <u>4,227,581</u> |
| Cash at beginning of period | 41,328,039 | 9,179,075 |
| Cash at end of period | <u>\$ 25,084,644</u> | <u>\$ 13,406,656</u> |
| <u>Cash paid for interest</u> | | |
| Cash paid during the period for interest | <u>\$ -</u> | <u>\$ 17,271</u> |
| <u>Non-cash investing and financing activities</u> | | |
| Cashless exercise of warrants | <u>\$ -</u> | <u>\$ 300</u> |
| Cashless exercise of options | <u>\$ 255</u> | <u>\$ -</u> |
| Consideration payable for Cleared acquisition | <u>\$ 8,079,367</u> | <u>\$ -</u> |
| Consideration payable for ResumeBuild acquisition | <u>\$ 500,000</u> | <u>\$ -</u> |
| Principal of Paycheck protection Program loans forgiven | <u>\$ -</u> | <u>\$ 184,914</u> |
| Additional purchase of membership interest in WSS issued in performance options | <u>\$ -</u> | <u>\$ 144,002</u> |

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

LIFEMD, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF THE ORGANIZATION AND BUSINESS

Corporate History

LifeMD, Inc. was formed in the State of Delaware on May 24, 1994, under its prior name, Immudyne, Inc. The Company changed its name to Conversion Labs, Inc. on June 22, 2018 and then subsequently, on February 22, 2021, it changed its name to LifeMD, Inc. Effective February 22, 2021, the trading symbol for the Company's common stock, par value \$0.01 per share on The Nasdaq Stock Market LLC changed from "CVLB" to "LFMD".

On April 1, 2016, the original operating agreement of Immudyne PR LLC ("Immudyne PR"), a joint venture to market the Company's skincare products, was amended and restated and the Company increased its ownership and voting interest in Immudyne PR to 78.2%. Concurrent with the name change of the parent company to Conversion Labs, Inc., Immudyne PR was renamed to Conversion Labs PR LLC. On April 25, 2019, the operating agreement of Conversion Labs PR was amended and restated in its entirety to increase the Company's ownership and voting interest in Conversion Labs PR to 100%. On February 22, 2021, concurrent with the name of the parent company to LifeMD, Inc., Conversion Labs PR LLC was renamed to LifeMD PR, LLC.

In June 2018, the Company closed the strategic acquisition of 51% of LegalSimpli Software, LLC, which operates a software as a service ("SaaS") application for converting, editing, signing, and sharing PDF documents called PDFSimpli. In addition to LegalSimpli Software, LLC's growth business model, this acquisition added deep search engine optimization and search engine marketing expertise to the Company. On July 15, 2021, LegalSimpli Software, LLC, changed its name to WorkSimpli Software, LLC, ("WorkSimpli"). Effective January 22, 2021, the Company consummated a transaction to restructure the ownership of WorkSimpli (the "WSS Restructuring") (See Note 7) and concurrently increased its ownership stake in WorkSimpli to 85.6%.

On January 18, 2022, the Company acquired Cleared Technologies, PBC, a Delaware public benefit corporation ("Cleared"), a rapidly growing nationwide allergy telehealth platform that provides personalized treatments for allergy, asthma, and immunology (See Note 3).

Nature of Business

The Company is a direct-to-patient telehealth technology company that provides a smarter, cost-effective and convenient way for patients of its affiliated medical group to access healthcare. The Company believes that the traditional model of visiting a doctor's office, receiving a physical prescription, visiting a local pharmacy, and returning to see a doctor for follow up care or prescription refills is inefficient, costly to patients, and discourages many patients from seeking much needed medical care. The U.S. healthcare system is undergoing a paradigm shift, thanks to new technologies and the emergence of direct-to-patient healthcare. Direct-to-patient telehealth technology companies, like the Company, connect consumers to affiliated, licensed, healthcare professionals for care across numerous indications, including concierge care, men's sexual health, and dermatology, among others.

The Company's telehealth platform helps patients access their licensed providers for diagnoses, virtual care, and prescription medications, often delivered on a recurring basis. In addition to its telehealth prescription offerings, the Company sells over-the-counter ("OTC") products. All products are available on a subscription or membership basis, where a patient can subscribe to receive regular shipments of prescribed medications or products. This creates convenience and often discounted pricing opportunities for patients and recurring revenue streams for the Company.

The Company believes that brand innovation, customer acquisition, and service excellence form the heart of its business. As is exemplified with its first brand, Shapiro MD, it has built a full line of proprietary OTC products for male and female hair loss, Food and Drug Administration ("FDA") approved OTC minoxidil, an FDA-cleared medical device, and now a personalized telehealth platform offering that gives consumers access to virtual medical treatment from their providers and, when appropriate, a full line of oral and topical prescription medications for hair loss. The Company's men's brand, RexMD, currently offers access to provider-based treatment for erectile dysfunction, as well as treatment for other common men's health issues, including premature ejaculation and hair loss. In the first quarter of 2021, the Company launched its newest brand, NavaMD, a tele-dermatology and skincare brand for women. The Company has built a platform that allows it to efficiently launch telehealth and wellness product lines wherever it determines there is a market need.

Business and Subsidiary History

In June 2018, Conversion Labs closed the strategic acquisition of 51% of WorkSimpli, which operates a SaaS application for converting, editing, signing and sharing PDF documents called PDFSimpli. In addition to WorkSimpli's growth business model,

this acquisition added deep search engine optimization and search engine marketing expertise to the Company. The Company subsequently increased its ownership stake in WorkSimpli to its current 85.6%.

In early 2019, the Company had launched a service-based business under the name Conversion Labs Media LLC (“CVLB Media”), a Puerto Rico limited liability company, which was to be used to run e-commerce marketing campaigns for other online businesses. However, this business initiative was terminated in early 2019 in order to focus on its core business as well as the expansion of our telehealth opportunities. In May 2019, Conversion Labs RX, LLC (“CVLB Rx”), a Puerto Rico limited liability company, signed a strategic partnership agreement with GoGoMeds.com (“GoGoMeds”). GoGoMeds is a nationwide pharmacy licensed to dispense prescription medications directly to consumers in all 50 states and the District of Columbia. However, since its inception, CVLB Rx did not conduct any business and CVLB Rx was dissolved on August 7, 2020. Additionally, Conversion Labs Asia Limited (“Conversion Labs Asia”), a Hong Kong company, had no activity during the three months ended March 31, 2022 and 2021.

On January 18, 2022, the Company acquired Cleared, a rapidly growing nationwide allergy telehealth platform that provides personalized treatments for allergy, asthma, and immunology. Under the terms of the agreement, the Company acquired all outstanding shares of Cleared at closing in exchange for a \$460,000 upfront cash payment, and two non-contingent milestone payments for total of \$3.46 million (\$1.73 million each on or before the first and second anniversaries of the closing date). The Company purchased a convertible note from a strategic pharmaceutical investor for \$507,000 which was converted upon closing of the Cleared acquisition. The Company also agreed to a performance-based earnout based on Cleared’s future net sales, payable in cash or shares at the Company’s discretion. (See Note 3)

In February 2022, WorkSimpli closed on an Asset Purchase Agreement (the “ResumeBuild APA”) with East Fusion FZCO, a Dubai, UAE corporation (the “Seller”), whereby WorkSimpli acquired substantially all of the assets associated with the Seller’s business offering subscription-based resume building software through SaaS online platforms (the “Acquisition”). WorkSimpli paid to the Seller a purchase price \$4,000,000. The Seller is also entitled to a minimum of \$500 thousand to be paid out in quarterly payments equal to the greater of 15% of net profits (as defined in the ResumeBuild APA) or \$62,500, for a two-year period ending on the two-year anniversary of the closing of the Acquisition. WorkSimpli borrowed the purchase price from the Company pursuant to a promissory note with the obligation secured by an equity purchase guarantee agreement and a stock option pledge agreement from Fitzpatrick Consulting, LLC and its sole member Sean Fitzpatrick, who is Co-Founder and President of WorkSimpli. (See Note 3).

Unless otherwise indicated, the terms “LifeMD,” “Company,” “we,” “us,” and “our” refer to LifeMD, Inc. (formerly known as Conversion Labs, Inc.), our wholly subsidiary LifeMD PR, LLC (formerly Immudyne PR LLC, and “Conversion Labs PR”), a Puerto Rico limited liability company (“Conversion Labs PR”, or “CLPR”), our recent acquisition, Cleared, a Delaware public benefit corporation and our majority-owned subsidiary, WorkSimpli. The affiliated network of medical Professional Corporations and medical Professional Associations administratively led by LifeMD Southern Patient Medical Care, P.C., is the Company’s variable interest entity in which we hold a controlling financial interest (“LifeMD PC”). Unless otherwise specified, all dollar amounts are expressed in United States dollars.

Partnerships

On July 13, 2021, the Company, on behalf of its customers, entered into an agreement to engage Quest Diagnostics Incorporated (“Quest Diagnostics”) as the Company’s laboratory services provider to perform certain clinical laboratory diagnostic services based on orders submitted to Quest Diagnostics by licensed health care providers who are under contract with the Company and are authorized under U.S. federal or state law to order laboratory tests. Patients of LifeMD Inc.’s affiliated providers gain access to more than 150 of the most ordered laboratory tests at preferential prices, and which can be completed in the comfort, safety, and convenience of their home or office or at any one of Quest Diagnostics’ 2,000 facilities.

On July 14, 2021, the Company entered into an agreement to engage Axle Health Inc. (“Axle Health”) to assist the Company in establishing a platform to enable patients of the Company’s medical practice clients (“MP Clients”) to schedule certain nursing services, including blood draws, injections, and other basic healthcare services, and to furnish operational support services to medical practices using the platform. In connection therewith, Axle Health granted the Company a revocable, nontransferable, non-exclusive right and license, with the right to grant sublicenses, to install and use the software and other technology relating to the platform developed, owned, or with the right to grant sublicenses to install and use the software and/or other technology developed, owned, or licensed by Axle Health, including the platform, to facilitate the scheduling and provision of certain nursing services to patients of MP Clients.

On August 4, 2021, the Company entered into a partnership agreement with Particle Health, a state-of-the-art, digital health company with a HIPAA-compliant technology platform that converts electronic medical records data into a user-friendly Fast Healthcare Interoperability Resource (“FHIR”) format. Particle Health enables healthcare companies by offering simple, secure access to vital medical data. With Particle Health’s platform, and patient consent, licensed medical providers on the LifeMD primary care platform gain instant access to comprehensive patient health records, therefore enabling best-in-class, personalized care through a deeper understanding of their patients’ medical histories.

On August 30, 2021, the Company signed a letter of intent with Prescriptive Health (“Prescriptive”), a healthcare technology company empowering consumers by improving the way healthcare is delivered. The partnership is expected to

accelerate growth for both companies by combining LifeMD's expanding direct-to-patient telehealth brands and LifeMD primary care platform with Prescriptive's best-in-class digital pharmacy fulfillment and e-prescribing technology platform.

Liquidity

The Company has funded operations in the past through the sales of its products, issuance of common and preferred stock, and through loans and advances. The Company's continued operations are dependent upon obtaining an increase in its sale volumes and obtaining funding from third-party sources or the issuance of additional shares of common stock.

On February 11, 2021, the Company consummated the closing of a private placement offering (the "February 2021 Offering"), whereby pursuant to the securities purchase agreement (the "February 2021 Purchase Agreement") entered into by the Company and certain accredited investors on February 11, 2021 the Investors purchased 608,696 shares of the Company's common stock par value \$0.01 per share at a purchase price of \$23.00 per share for aggregate gross proceeds of approximately \$14.0 million (the "Purchase Price"). The Purchase Price was funded on the closing date and resulted in net proceeds to the Company of approximately \$13.5 million after deducting fees payable to the placement agent and other estimated offering expenses payable by the Company. The Company is using the net proceeds to fund growth initiatives, as well as for general corporate purposes.

On June 1, 2021, the Company entered into a securities purchase agreement (the "June 1, 2021 Purchase Agreement") with a financial institution (the "Purchaser"), pursuant to which the Company sold and issued: (i) a senior secured redeemable debenture (the "Debenture") in the aggregate principal amount of \$15.0 million (the "Aggregate Principal Amount"), and (ii) warrants to purchase up to an aggregate of 1,500,000 shares of the Company's common stock at an exercise price of \$12.00 per share (the "Warrant") of which 500,000 warrants were issued to the Purchaser upon closing with the remaining 1,000,000 warrants only issued to the Purchaser in increments of 500,000 if the Debenture remains outstanding for twelve and twenty four months, respectively, following the closing date of the June 1, 2021 Purchase Agreement. The Warrant has a term of three years, and the Debenture has a maturity date of three years. The Company received gross proceeds of \$15.0 million. In October 2021, the Company used a portion of the net proceeds from the October 4, 2021 Offerings noted below to pay the \$15.0 million outstanding on the June 1, 2021 Purchase Agreement.

On June 8, 2021, the Company filed a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act"), which was declared effective on June 22, 2021 (the "2021 Shelf"). Under the 2021 Shelf at the time of effectiveness, the Company had the ability to raise up to \$150 million by selling common stock, preferred stock, debt securities, warrants and units. In conjunction with the 2021 Shelf, the Company also entered into an At Market Issuance Sales Agreement (the "ATM Sales Agreement") with B. Riley Securities, Inc. ("B. Riley") and Cantor Fitzgerald & Co. ("Cantor", and collectively the "Agents") relating to the sale of its common stock. In accordance with the terms of the ATM Sales Agreement, the Company may, but is not obligated to, offer and sell, from time to time, shares of common stock having an aggregate offering price of up to \$60 million, through or to the Agents, acting as agent or principal. Sales of common stock, if any, will be made by any method permitted that is deemed an "at the market offering" as defined in Rule 415 under the Securities Act. The Company intends to use any net proceeds from the sale of securities for our operations and for other general corporate purposes, including, but not limited to, capital expenditures, general working capital and possible future acquisitions. There were no shares of common stock sold under the ATM Sales Agreement during the three months ended March 31, 2022 and 2021. Under the 2021 Shelf, the Company had the ability to raise up to \$150 million, of which \$58.5 million was utilized as of March 31, 2022. The Company has approximately \$59.5 million available under the ATM Sales Agreement and \$32 million available under the 2021 Shelf as of March 31, 2022.

In September 2021, the Company entered into two underwriting agreements (the "Preferred Underwriting Agreement" and "the Common Underwriting Agreement") with B. Riley. Pursuant to the Preferred Underwriting Agreement, the Company agreed to sell 1,400,000 shares of its 8.875% Series A Cumulative Perpetual Preferred Stock, par value \$0.0001 per share, (the "Series A Preferred Stock") at a public offering price of \$25.00 per share, prior to deducting underwriting discounts and commissions and estimated offering expenses (the "Preferred Stock Offering"). In addition, the Company granted the underwriters an option to purchase up to an additional 210,000 shares of Series A Preferred Stock within 30 days. The option was not exercised. Under the Common Underwriting Agreement, the Company agreed to sell to B. Riley 3,833,334 shares of common stock (including 500,000 shares pursuant to B. Riley's option) (the "Common Shares"), par value \$0.01 per share, of the Company at a public offering price of \$6.00 per share of common stock, prior to deducting underwriting discounts and commissions and estimated offering expenses (the "Common Stock Offering"). The Preferred Stock Offering and Common Stock Offering collectively referred to as the "October 4, 2021 Offerings", closed on October 4, 2021. Net proceeds after deducting the underwriting discounts, and commissions, the structuring fee and estimated offering expenses payable by the Company, but before repayment of debt, from the Offerings was approximately \$55.3 million. The Company used a portion of the net proceeds to pay the \$15.0 million outstanding on the June 1, 2021 Purchase Agreement and intends to use the remaining net proceeds to fund the segregated dividend account, for working capital and general corporate purposes including, but not limited to, new patient customer acquisition expenses and capital expenditures.

The Company will pay cumulative distributions on the Series A Preferred Stock, from the date of original issuance, in the amount of \$2.21875 per share each year, which is equivalent to 8.875% of the \$25.00 liquidation preference per share. Dividends on the Series A Preferred Stock will be payable quarterly in arrears, on or about the 15th day of January, April, July, and October of each year. The second quarterly dividend on the Series A Preferred Stock was declared on March 25, 2022 to holders of record as of April 5, 2022 and was paid on April 15, 2022. The dividend is included in the Company's results of operations for the three months ended March 31, 2022.

Liquidity Evaluation

As of March 31, 2022, the Company has an accumulated deficit approximating \$156 million and has experienced significant losses from its operations. Although the Company is showing significant positive revenue trends, the Company expects to incur further losses through the third quarter of 2022. Additionally, the Company expects its burn rate of cash to continue through the third quarter of 2022; however, the Company expects this burn rate to improve and become cash flow positive by the fourth quarter of 2022. To date, the Company has been funding operations primarily through the sale of equity in private placements and securities purchased by a financial institution. Management is unable to predict if and when the Company will be able to generate significant positive cash flow or achieve profitability. There can be no assurances that we will be successful in increasing revenues, improving operational efficiencies or that financing will be available or, if available, that such financing will be available under favorable terms.

The Company has a current cash balance of approximately \$20.1 million as of the filing date, which includes the \$13.5 million of net proceeds from the February 2021 Offering and the \$55.3 million of net proceeds from the October 4, 2021 Offerings. The Company reviewed its forecasted operating results and sources and uses of cash used in management's assessment, which included the available financing and consideration of positive and negative evidence impacting management's forecasts, market, and industry factors. Positive indicators that lead to its conclusion that the Company will have sufficient cash over the next 12 months following the date of this report include: (1) its continued strengthening of the Company's revenues and improvement of operational efficiencies across the business, (2) the expected improvement in its cash burn rate over the next 12 months, (3) \$59.5 million available under the ATM Sales Agreement and \$32 million available under the 2021 Shelf, (4) management's ability to curtail expenses, if necessary, and (5) the overall market value of the telehealth industry and how it believes that will continue to drive interest in the Company.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by accounting principles generally accepted in the United States ("U.S. GAAP") for complete audited financial statements. The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements, including the notes thereto, as of and for the year ended December 31, 2021, included in our 2021 Annual Report on Form 10-K filed with the SEC. The information furnished in this report reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of our financial position, results of operations and cash flows for each period presented. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results for the year ending December 31, 2022 or for any future period.

Principles of Consolidation

The Company evaluates the need to consolidate affiliates based on standards set forth in Accounting Standards Codification ("ASC") 810, *Consolidation*.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CLPR, its recent acquisition, Cleared, its majority owned subsidiary, WorkSimpli, in addition to LifeMD PC, the Company's variable interest entity in which we hold a controlling financial interest. During the year ended December 31, 2021, the Company purchased an additional 34.6% of WorkSimpli for a total equity interest of approximately 85.6% as of December 31, 2021 (see Note 7).

All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. As of March 31, 2022 and December 31, 2021, there were no cash equivalents. The Company maintains deposits in financial institutions in excess of amounts guaranteed by the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at financial institutions, and at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances.

Variable Interest Entities

In accordance with ASC 810, *Consolidation*, the Company determines whether any legal entity in which the Company becomes involved is a variable interest entity (a “VIE”) and subject to consolidation. This determination is based on whether an entity has sufficient equity at risk to finance their activities without additional subordinated financial support from other parties or whose equity investors lack any of the characteristics of a controlling financial interest and whether the interest will absorb portions of a VIE’s expected losses or receive portions of its expected residual returns and are contractual, ownership, or pecuniary in nature and that change with changes in the fair value of the entity’s net assets. A reporting entity is the primary beneficiary of a VIE and must consolidate it when that party has a variable interest, or combination of variable interests, that provides it with a controlling financial interest. A party is deemed to have a controlling financial interest if it meets both of the power and losses/benefits criteria. The power criterion is the ability to direct the activities of the VIE that most significantly impact its economic performance. The losses/benefits criterion is the obligation to absorb losses from, or right to receive benefits from, the VIE that could potentially be significant to the VIE.

The Company determined that the LifeMD PC entity, the Company’s affiliated medical professional corporation, is a VIE and subject to consolidation. LifeMD PC and the Company do not have any shareholders in common. LifeMD PC is owned by licensed physicians, and the Company maintains a service agreement with LifeMD PC whereby we provide all non-clinical services to LifeMD PC. The Company determined that it is the primary beneficiary of LifeMD PC and must consolidate, as we have both the power to direct the activities of LifeMD PC that most significantly impact the economic performance of the entity and we have the obligation to absorb the losses. As a result, the Company presents the financial position, results of operations, and cash flows of LifeMD PC as part of the consolidated financial statements of the Company. There is no non-controlling interest upon consolidation of LifeMD PC.

Total net loss for LifeMD PC was approximately \$1.5 million for the three months ended March 31, 2022.

Use of Estimates

The Company prepares its unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates required to be made by management include the determination of reserves for accounts receivable, returns and allowances, the valuation of inventory and stockholders’ equity-based transactions. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to conform the prior year’s data to the current presentation. These reclassifications have no effect on previously reported operating loss, stockholders’ deficit or cash flows. Given the increase in the Company’s software business and to conform the Company’s presentation of operating results to industry standards, the Company has changed their categories for reporting operations and, as a result, the Company has made reclassifications to the prior year presentation in order to conform it to the current periods’ presentation. The reclassifications include: (1) \$6,538 of reimbursable expenses reclassified from cost of revenues to other operating expenses, (2) \$157,662 of taxes and licensing fees reclassified from other operating expenses to general and administrative expenses, (3) \$45,659 of software development costs reclassified from cost of revenues to development costs and (4) \$73,170 of development services costs reclassified from other operating expenses to development costs for the three months ended March 31, 2021.

Revenue Recognition

The Company records revenue under the adoption of ASC 606, *Revenue from Contracts with Customers*, by analyzing exchanges with its customers using a five-step analysis:

1. Identify the contract
2. Identify performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue

For the Company’s product-based contracts with customers, the Company has determined that there is one performance obligation, which is the delivery of the product; this performance obligation is transferred at a discrete point in time. The Company generally records sales of finished products once the customer places and pays for the order, with the product being simultaneously shipped by a third-party fulfillment service provider; in limited cases, title does not pass until the product reaches the customer’s delivery site, in these limited cases, recognition of revenue should be deferred until that time, however the Company does not have a process to properly record the recognition of revenue if orders are not immediately shipped, and deems the impact to be immaterial. In all cases, delivery is considered to have occurred when title and risk of loss have transferred to the customer, which

is usually commensurate upon shipment of the product. In the case of its product-based contracts, the Company provides a subscription sensitive service based on the recurring shipment of products and records the related revenue under the subscription agreements subsequent to receiving the monthly product order, recording the revenue at the time it fulfills the shipment obligation to the customer.

For its product-based contracts with customers, the Company records an estimate for provisions of discounts, returns, allowances, customer rebates and other adjustments for its product shipments, and are reflected as contra revenues in arriving at reported net revenues. The Company's discounts and customer rebates are known at the time of sale, correspondingly, the Company reduces gross product sales for such discounts and customer rebates. The Company estimates customer returns and allowances based on information derived from historical transaction detail, and accounts for such provisions, as contra revenue, during the same period in which the related revenues are earned. The Company has determined that the population of its product-based contracts with customers are homogenous, supporting the ability to record estimates for returns and allowances to be applied to the entire product-based portfolio population. Customer discounts, returns and rebates on telehealth revenues approximated \$1.5 million and \$1.2 million, respectively, during the three months ended March 31, 2022 and 2021.

The Company, through its majority-owned subsidiary WorkSimpli, offers a subscription-based service providing a suite of software applications to its subscribers, principally on a monthly subscription basis. The software suite allows the subscriber/user to convert almost any type of document to another electronic form of editable document, providing ease of editing. For these subscription-based contracts with customers, the Company offers an initial 14-day trial period which is billed at \$1.95, followed by a monthly subscription, or a yearly subscription to the Company's software suite dependent on the subscriber's enrollment selection. The Company has estimated that there is one product and one performance obligation that is delivered over time, as the Company allows the subscriber to access the suite of services for the time period of the subscription purchased. The Company allows the customer to cancel at any point during the billing cycle, in which case the customers subscription will not be renewed for the following month or year depending on the original subscription. The Company records the revenue over the customers subscription period for monthly and yearly subscribers or at the end of the initial 14-day service period for customers who purchased the initial subscription, as the circumstances dictate. The Company offers a discount for the monthly or yearly subscriptions being purchased, which is deducted at the time of payment at the initiation of the contract term, therefore the Contract price is fixed and determinable at the contract initiation. Monthly and annual subscriptions for the service are recorded net of the Company's known discount rates. As of March 31, 2022 and December 31, 2021, the Company has accrued contract liabilities, as deferred revenue, of approximately \$1.8 million and \$1.5 million, respectively, which represent obligations on in-process monthly or yearly contracts with customers and a portion attributable to the yet to be recognized initial 14-day trial period collections. Customer discounts and allowances on WorkSimpli revenues approximated \$448 thousand and \$554 thousand, respectively, during the three months ended March 31, 2022 and 2021.

For the three months ended March 31, 2022 and 2021, the Company had the following disaggregated revenue:

| | Three Months Ended March 31, | | | |
|--------------------|------------------------------|-------------|----------------------|-------------|
| | 2022 | % | 2021 | % |
| Telehealth revenue | \$ 22,598,061 | 78% | \$ 13,283,315 | 73% |
| WorkSimpli revenue | 6,444,776 | 22% | 4,914,797 | 27% |
| Total net revenue | <u>\$ 29,042,837</u> | <u>100%</u> | <u>\$ 18,198,112</u> | <u>100%</u> |

Deferred Revenues

The Company records deferred revenues when cash payments are received or due in advance of its performance. The Company's deferred revenues relate to payments received for the in-process monthly or yearly contracts with customers and a portion attributable to the yet to be recognized initial 14-day trial period collections.

| | Three Months Ended March 31, | |
|---------------------|------------------------------|---------------------|
| | 2022 | 2021 |
| Beginning of period | \$ 1,499,880 | \$ 916,880 |
| Additions | 6,367,970 | 5,024,866 |
| Revenue recognized | (6,079,295) | (4,602,437) |
| End of period | <u>\$ 1,788,555</u> | <u>\$ 1,339,309</u> |

Accounts Receivable

Accounts receivable principally consist of amounts due from third-party merchant processors, who process our subscription revenues; the merchant accounts balance receivable represents the charges processed by the merchants that have not yet been deposited with the Company. The unsettled merchant receivable amount normally represents processed sale transactions from the final one to three days of the month, with collections being made by the Company within the first week of the following month. Management determines the need, if any, for an allowance for future credits to be granted to customers, by regularly evaluating aggregate customer refund activity, coupled with the consideration and current economic conditions in its evaluation of an allowance for future refunds and chargebacks. As of March 31, 2022 and December 31, 2021, the reserve for sales returns and allowances was approximately \$495 thousand and \$477 thousand, respectively. For all periods presented, as noted above, the sales returns and allowances were recorded in accounts payable and accrued expenses on the unaudited condensed consolidated balance sheets.

Inventory

As of March 31, 2022 and December 31, 2021, inventory primarily consisted of finished goods related to the Company's OTC products included in the telehealth revenue section of the table above. Inventory is maintained at the Company's third-party warehouse location in Wyoming and at various Amazon fulfillment centers. The Company also maintains inventory at a company owned warehouse in Pennsylvania.

Inventory is valued at the lower of cost or net realizable value with cost determined on an average cost basis. Management compares the cost of inventory with the net realizable value and an allowance is made for writing down inventory to net realizable, if lower. As of both March 31, 2022 and December 31, 2021, the Company recorded an inventory reserve in the amount of \$57,481.

As of March 31, 2022 and December 31, 2021, the Company's inventory consisted of the following:

| | <u>March 31,</u> <u>2022</u> | <u>December 31,</u> <u>2021</u> |
|--|---------------------------------|------------------------------------|
| Finished Goods - Products | \$ 1,215,022 | 1,592,654 |
| Raw materials and packaging components | 82,493 | 81,427 |
| Inventory reserve | (57,481) | (57,481) |
| Total Inventory - net | <u>\$ 1,240,034</u> | <u>\$ 1,616,600</u> |

Product Deposit

Many of our vendors require deposits when a purchase order is placed for goods or fulfillment services. These deposits typically range from 10% to 33% of the total purchased amount. Our vendors include a credit memo within their final invoice, recognizing the deposit amount previously paid. As of March 31, 2022 and December 31, 2021, the Company has approximately \$615 thousand and \$204 thousand, respectively, of product deposits with multiple vendors for the purchase of raw materials or finished goods. The Company's history of product deposits with its inventory vendors, creates an implicit purchase commitment equaling the total expected product acceptance cost in excess of the product deposit. As of March 31, 2022 and December 31, 2021, the Company approximates its implicit purchase commitments to be \$1.3 million and \$511 thousand, respectively. As of March 31, 2022 and December 31, 2021, the vast majority of these product deposits are with one vendor that manufactures the Company's finished goods inventory for its Shapiro hair care product line.

Capitalized Software Costs

The Company capitalizes certain internal payroll costs and third-party costs related to internally developed software and amortizes these costs using the straight-line method over the estimated useful life of the software, generally three years. The Company does not sell internally developed software other than through the use of subscription service. Certain development costs not meeting the criteria for capitalization, in accordance with ASC 350-40, *Internal-Use Software*, are expensed as incurred. As of March 31, 2022 and December 31, 2021, the Company capitalized \$5.7 million and \$3.6 million, respectively, related to internally developed software costs which are amortized over the useful life and included in development costs on our statement of operations.

Goodwill and Intangible Assets

Goodwill and intangible assets include those acquired in conjunction with the Cleared acquisition for which the purchase accounting is preliminary (see Note 3). Other amortizable intangible assets include: (1) intangible assets acquired related to the ResumeBuild brand (with original cost of approximately \$4.5 million) with an estimated useful life of five years, (2) a customer relationship asset (with original cost of approximately \$1,007,000) with an estimated useful life of three years, (3) a purchased license (with original cost of \$200,000) with an estimated useful life of ten years and (4) purchased domain names (with original costs of \$22,731) with estimated useful lives of three years. Intangible assets are amortized over their estimated lives using the straight-line method. Costs incurred to renew or extend the term of recognized intangible assets are capitalized and amortized over the useful life of the asset.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities (asset group). If the sum of the projected undiscounted cash flows (excluding interest charges) of an asset group is less than its carrying value and the fair value of an asset group is also less than its carrying value, the assets will be written down by the amount by which the carrying value of the asset group exceeded its fair value. However, the carrying amount of a finite-lived intangible asset can never be written down below its fair value. Any loss would be recognized in income from continuing operations in the period in which the determination is made.

Paycheck Protection Program

During the year ended December 31, 2020, the Company received aggregate loan proceeds in the amount of approximately \$249,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Company to be ineligible for forgiveness of the loan, in whole or in part.

During the three months ended March 31, 2021, the Company had a total of \$184,914 of its PPP loans forgiven by the U.S. Small Business Administration (“SBA”) (see Note 6). As of both March 31, 2022 and December 31, 2021, the PPP loan balance was \$63,400 and is reflected on the Company’s unaudited condensed consolidated balance sheet as current liabilities, within notes payable, net.

Income Taxes

The Company files corporate federal, state and local tax returns. Conversion Labs PR and WorkSimpli file tax returns in Puerto Rico. Both are limited liability companies and file separate tax returns with any tax liabilities or benefits passing through to its members.

The Company records current and deferred taxes in accordance with ASC 740, *Accounting for Income Taxes*. This ASC requires recognition of deferred tax assets and liabilities for temporary differences between tax basis of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance, when necessary, to reduce deferred tax assets to the amount expected to be realized. The Company periodically assesses the value of its deferred tax asset, a majority of which has been generated by a history of net operating losses and management determines the necessity for a valuation allowance. ASC 740 also provides a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. Using this guidance, a company may recognize the tax benefit from an uncertain tax position in its financial statements only if it is more likely-than-not (i.e., a likelihood of more than 50%) that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company’s tax returns for all years since December 31, 2018, remain open to audit by all related taxing authorities.

Stock-based Compensation

The Company follows the provisions of ASC 718, *Share-Based Payment*. Under this guidance compensation cost generally is recognized at fair value on the date of the grant and amortized over the respective vesting or service period. The fair value of options at the date of grant is estimated using the Black-Scholes option pricing model. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of the Company’s common shares using weekly price observations over an observation period that approximates the expected life of the options. The risk-free interest rate approximates the U.S. Treasury yield curve rate in effect at the time of grant for periods similar to the expected option life. Due to limited history of forfeitures, the Company has elected to account for forfeitures as they occur. Many of the assumptions require significant judgment and any changes could have a material impact in the determination of stock-based compensation expense.

Earnings (Loss) Per Share

Basic earnings (loss) per common share (“EPS”) is based on the weighted average number of shares outstanding during each period presented. Convertible securities, warrants and options to purchase common stock are included as common stock equivalents only when dilutive. Potential common stock equivalents are excluded from dilutive earnings per share when the effects would be antidilutive.

The Company follows the provisions of ASC 260, *Diluted Earnings per Share*. In computing diluted EPS, basic EPS is adjusted for the assumed issuance of all potentially dilutive securities. The dilutive effect of call options, warrants and share-based payment awards is calculated using the “treasury stock method,” which assumes that the “proceeds” from the exercise of these instruments are used to purchase common shares at the average market price for the period. The dilutive effect of traditional convertible debt and preferred stock is calculated using the “if-converted method.” Under the if-converted method, securities are assumed to be converted at the beginning of the period, and the resulting common shares are included in the denominator of the diluted EPS calculation for the entire period being presented.

The following table summarizes the number of shares of common stock issuable pursuant to our convertible securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive even though the exercise price could be less than the average market price of the common shares:

| | Three Months Ended March 31, | |
|---------------------------------|-------------------------------------|------------------|
| | 2022 | 2021 |
| Series B Preferred Stock | 1,299,389 | 1,162,466 |
| Restricted Stock Units (RSUs) | 1,412,500 | 47,500 |
| Stock options | 4,376,931 | 4,395,000 |
| Warrants | 3,859,638 | 3,550,471 |
| Potentially dilutive securities | <u>10,948,458</u> | <u>9,155,437</u> |

Segment Data

Our portfolio of brands are included within two operating segments: Telehealth and WorkSimpli. We believe our current segments and brands within our segments complement one another and position us well for future growth. Segment operating results are reviewed by the chief operating decision maker to make determinations about resources to be allocated and to assess performance. Other factors, including type of business, revenue recognition and operating results are reviewed in determining the Company's operating segments.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued expenses and the face amount of notes payable approximate fair value for all periods presented.

Concentrations of Risk

The Company monitors its positions with, and the credit quality of, the financial institutions with which it invests. The Company, at times, maintains balances in various operating accounts in excess of federally insured limits. We are dependent on certain third-party manufacturers and pharmacies, although we believe that other contract manufacturers or third-party pharmacies could be quickly secured if any of our current manufacturers or pharmacies cease to perform adequately. As of March 31, 2022, we utilized four (4) suppliers for fulfillment services, seven (7) suppliers for manufacturing finished goods, four (4) suppliers for packaging, bottling and labeling and two (2) suppliers for prescription medications. As of December 31, 2021, we utilized four (4) suppliers for fulfillment services, six (6) suppliers for manufacturing finished goods and four (4) suppliers for packaging, bottling and labeling. We purchased 100% of our finished goods from six (6) OTC manufacturers for both the three months ended March 31, 2022 and for the year ended December 31, 2021.

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805); Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This new guidance affects all entities that enter into a business combination within the scope of ASC 805-10. Under this new guidance, the acquirer should determine what contract assets and/or liabilities it would have recorded under ASC 606, *Revenue from Contracts with Customers*, as of the acquisition date, as if the acquirer had entered into the original contract at the same date and on the same terms as the acquirer. Under current U.S. GAAP, contract assets and contract liabilities acquired in a business combination are recorded by the acquirer at fair value. This update is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of this guidance will have on our consolidated financial statements and related disclosures.

Other Recent Accounting Pronouncements

All other accounting standards updates that have been issued or proposed by the FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 3 – ACQUISITIONS

On January 18, 2022, the Company completed the acquisition of Cleared and accounted for the transaction using the acquisition method in accordance with ASC 805, *Business Combinations*, with the purchase price being allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition date. Fair values were determined using income approaches. The results of Cleared are included within the consolidated financial statements commencing on the acquisition date.

The preliminary purchase price was approximately \$9.1 million, including cash paid upfront of approximately \$1.0 million and payable in the future of approximately \$3.0 million, and contingent consideration of \$5.1 million. The purchase agreement includes up to \$72.8 million of potential earn-out payable in cash or stock upon achievement of revenue targets, which is recognized as contingent consideration. The Company, with the assistance of a third-party valuation expert, estimated the preliminary fair value of the acquired tangible and identifiable intangible assets using significant estimates such as revenue projections. The allocation of the consideration transferred to the assets acquired and the liabilities assumed is preliminary. This can be revised as a result of additional information obtained due to the finalization of the valuation inputs and assumptions as well as completing the assessment of the tax attributes of the business combination. Additional adjustments that could have a material impact on the Company's results of operations and financial position may be recorded within the measurement period, which will not exceed one year from the acquisition date.

The following table summarizes the preliminary acquisition date fair values of assets acquired and liabilities assumed:

| | |
|--|---------------------|
| Preliminary purchase price, net of cash acquired | \$ 9,091,762 |
| Less: | |
| Inventory | 7,168 |
| Fixed assets | 37,888 |
| Accounts payable and other current liabilities | (408,030) |
| Goodwill and intangible assets | <u>\$ 9,454,736</u> |

The amount allocated to goodwill and intangible assets reflects the benefits the Company expects to realize from the growth of the acquisition's operations. The pro forma financial information, assuming the acquisition had taken place on January 1, 2022, as well as the revenue and earnings generated during the period after the acquisition date, were not material for separate disclosure and, accordingly, have not been presented.

In February 2022, WorkSimpli closed on the ResumeBuild APA to purchase the related intangible assets associated with the ResumeBuild brand. WorkSimpli paid to the Seller a purchase price of \$4,500,000, including cash paid upfront and contingent consideration of \$500 thousand. In accordance with ASC 805, *Business Combinations*, the Company accounted for the ResumeBuild APA as an acquisition of assets as substantially all the fair value of the gross assets acquired is concentrated in a group of similar assets. The Company has elected to group the complementary intangible assets acquired as a single brand intangible asset. Additionally, the Seller is entitled to quarterly payments equal to the greater of 15% of net profits (as defined in the ResumeBuild APA) or \$62,500, for a two-year period ending on the two-year anniversary of the closing of the Acquisition. The Company estimated the fair value of the contingent consideration using the income approach and will remeasure the fair value quarterly with changes accounted for through earnings.

NOTE 4 – GOODWILL AND INTANGIBLE ASSETS

As of March 31, 2022 and December 31, 2021, the Company has the following amounts related to goodwill and intangible assets:

| | Goodwill and Intangible Assets as at: | | Amortizable Life |
|--|---------------------------------------|-------------------|------------------|
| | March 31, 2022 | December 31, 2021 | |
| Preliminary Goodwill – Cleared Acquisition | \$ 9,454,736 | \$ - | |
| Other Amortizable Intangible Assets: | | | |
| ResumeBuild brand | 4,500,000 | - | 5 years |
| Customer relationship asset | 1,006,840 | 1,006,840 | 3 years |
| Purchased licenses | 200,000 | 200,000 | 10 years |
| Website domain name | 22,731 | 22,231 | 3 years |
| Less: accumulated amortization | (1,323,704) | (1,209,310) | |
| Total net goodwill and amortizable intangible assets | <u>\$ 13,860,603</u> | <u>\$ 19,761</u> | |

The aggregate amortization expense of the Company's intangible assets for the three months ended March 31, 2022 and 2021 was approximately \$114,394 and \$83,903, respectively. Total amortization expense for the remainder of 2022 is \$680,683. Total amortization expense for 2023 through 2026 is approximately \$900,000 per year and \$112,500 for 2027.

NOTE 5 – ACCRUED EXPENSES

As of March 31, 2022 and December 31, 2021, the Company has the following amounts related to accrued expenses:

| | March 31, | December 31, |
|--|----------------------|----------------------|
| | 2022 | 2021 |
| Accrued selling and marketing expenses | 4,611,643 | 4,981,453 |
| Accrued compensation | 830,692 | 1,657,843 |
| Accrued dividends payable | 776,563 | 871,476 |
| Sales tax payable | 2,001,217 | 2,000,000 |
| Purchase price payable | 1,562,712 | - |
| Other accrued expenses | 1,767,405 | 2,084,833 |
| Total accrued expenses | \$ 11,550,232 | \$ 11,595,605 |

NOTE 6 – NOTES PAYABLE

PPP Loan and Forgiveness

In June 2020, the Company and its subsidiaries received three loans in the aggregate amount of approximately \$249 thousand (the “PPP Loan”) under the Paycheck Protection Program legislation administered by the SBA. These loans bear interest at one percent per annum (1.0%) and mature five years from the date of the first disbursement. The proceeds of the PPP Loan must be used for payroll costs, lease payments on agreements entered into before February 15, 2020 and utility payments under lease agreements entered into before February 1, 2020. At least 60% of the proceeds must be used for payroll costs and certain other expenses and no more than 40% may be used on non-payroll expenses. Proceeds from the PPP Loan used by the Company for the approved expense categories may be fully forgiven by the SBA if the Company satisfies applicable employee headcount and compensation requirements. The Company currently believes that a majority of the PPP Loan proceeds will qualify for debt forgiveness; however, there can be no assurance that the Company will qualify for forgiveness from the SBA until it occurs. During the three months ended March 31, 2021, the Company had a total of \$184,914 of its PPP loans forgiven by the SBA which is included in gain on debt forgiveness on the accompanying unaudited condensed consolidated statement of operations. As of both March 31, 2022 and December 31, 2021, the PPP loan balance was \$63,400 and is reflected on the Company’s unaudited condensed consolidated balance sheet as current liabilities, within notes payable, net.

Total interest expense on notes payable, inclusive of amortization of debt discounts, amounted to \$0 and \$17,271 for the three months ended March 31, 2022 and 2021, respectively.

NOTE 7 – STOCKHOLDERS’ EQUITY

The Company has authorized the issuance of up to 100,000,000 shares of common stock, \$0.01 par value, and 5,000,000 shares of preferred stock, \$0.0001 par value, of which 5,000 shares are designated as Series B Convertible Preferred Stock, 1,610,000 are designated as Series A Preferred Stock and 3,385,000 shares of preferred stock remain undesignated.

On June 8, 2021, the Company filed the 2021 Shelf. Under the 2021 Shelf at the time of effectiveness, the Company had the ability to raise up to \$150 million by selling common stock, preferred stock, debt securities, warrants and units. In conjunction with the 2021 Shelf, the Company also entered into the ATM Sales Agreement whereby the Company may offer and sell, from time to time, shares of common stock having an aggregate offering price of up to \$60 million. Under the 2021 Shelf, the Company had the ability to raise up to \$150 million. The Company has approximately \$59.5 million available under the ATM Sales Agreement and \$32 million available under the 2021 Shelf as of March 31, 2022.

Options and Warrants

During the three months ended March 31, 2022, the Company issued an aggregate of 25,535 shares of common stock related to the cashless exercise of options.

During the three months ended March 31, 2022, the Company issued an aggregate of 22,000 shares of common stock related to the exercise of warrants for gross proceeds of \$38,500.

Membership Interest Purchase Agreement

On July 31, 2019 the Company entered into a certain membership interest purchase agreement (the “MIPA”) by and between the Company, Conversion Labs PR, a majority owned subsidiary, Taggart International Trust, an entity controlled by the Company’s Chief Executive Officer, Mr. Justin Schreiber, and American Nutra Tech LLC, a company controlled by its Chief Innovation and Marketing Officer, Mr. Stefan Galluppi (“Mr. Schreiber, Taggart International Trust, Mr. Galluppi and American Nutra Tech LLC each a “Related Party” and collectively, the “Related Parties”). Pursuant to the MIPA, the Company purchased 21.83333% of the membership interests (the “Remaining Interests”) of Conversion Labs PR from the Related Parties, bringing the Company’s ownership of Conversion Labs PR to 100%.

As consideration for the Company’s purchase of the Remaining Interests from the Related Parties, Mr. Schreiber and Mr. Galluppi agreed to cancel all potential issuances of restricted stock and or options related to their employment with the Company, in exchange for the immediate issuance of 500,000 shares of the Company’s restricted common stock to each of Mr. Schreiber and Mr. Galluppi (the “Initial Issuances”) (equal to 1,000,000 shares in the aggregate). Mr. Schreiber and Mr. Galluppi were also entitled to additional issuances pursuant to certain milestones as follows: (i) 500,000 shares of the Company’s Common Stock to each of Mr. Schreiber and Mr. Galluppi (1,000,000 shares in the aggregate) on the business day following a consecutive ninety (90) day period, during which the Company’s Common Stock shall have traded at an average price per share equal to or higher than \$2.50 (the “First Milestone”), and (ii) an additional 500,000 shares of the Company’s Common Stock to each of Mr. Schreiber and Mr. Galluppi (1,000,000 shares in the aggregate) following a consecutive ninety (90) day period during which the Common Stock shall have traded at an average price per share equal to or higher than \$3.75 (the “Second Milestone” and, together with the First Milestones, the “Milestones”). Having achieved the Milestones, the Company, on December 9, 2020, issued an aggregate of 1,000,000 shares of the Company’s Common Stock to each of Mr. Schreiber and Mr. Galluppi (the “Milestone Shares”) (2,000,000 shares in the aggregate). The Milestone Shares are subject to the previously disclosed 180-day Lock-Up Agreement each of Mr. Schreiber and Mr. Galluppi signed on November 3, 2020.

The Company recorded an aggregate expense of \$18,060,000 reflected in general and administrative expenses during the three months ended September 30, 2020 for the issuance of these 2,000,000 shares, of which 1,200,000 shares were issued during the three months ended March 31, 2021.

Common Stock

Common Stock Transactions During the Three Months Ended March 31, 2022

During the three months ended March 31, 2022, the Company issued an aggregate of 147,500 shares of common stock for services expensed in prior periods.

Noncontrolling Interest

For the three months ended March 31, 2022, net income attributed to the non-controlling interest amounted to \$24,726 and for the three months ended March 31, 2021, net loss attributed to the non-controlling interest amounted to \$270,503. During both the three months ended March 31, 2022 and 2021, the Company paid distributions to non-controlling shareholders of \$36,000.

WorkSimpli Software Restructuring Transaction

Effective January 22, 2021 (the “WSS Effective Date”), the Company consummated the WSS Restructuring. To effect the WSS Restructuring the Company’s wholly-owned subsidiary Conversion Labs PR, entered into a series of membership interest exchange agreements, pursuant to which, Conversion Labs PR exchanged that certain promissory note, dated May 8, 2019 with an outstanding balance of \$375,823 (the “CVLBPR Note”), issued by WSS in favor of Conversion Labs PR, for 37,531 newly issued membership interests of WSS (the “Exchange”). Upon consummation of the Exchange the CVLBPR Note was extinguished.

Concurrently, in furtherance of the WSS Restructuring, Conversion Labs PR entered into two Membership Interest Purchase Agreements (the “Founding Members MIPAs”) with two founding members of WSS (the “Founding Members”) whereby Conversion Labs PR purchased from the Founding Members an aggregate of 2,183 membership interests of WSS for an aggregate purchase price of \$225,000, paid in December 2020.

In furtherance of the WSS Restructuring, Conversion Labs PR entered into a Membership Interest Purchase Agreement with WSS, (the “CVLB PR MIPA”), pursuant to which Conversion Labs PR purchased 12,000 membership interests of WSS for an aggregate purchase price of \$300,000. The CVLB PR MIPA provides that the transaction may be completed in three (3) tranches with a purchase price of \$100,000 per tranche to be made at the sole discretion of Conversion Labs PR. Payment for the first tranche of \$100,000 was made upon execution of the CVLB PR MIPA in January 2021. Payments for the second and third tranches were made on the 60-day anniversary and the 120-day anniversary of the WSS Effective Date.

Following the consummation of the WSS Restructuring, Conversion Labs PR increased its ownership of WSS from 51% to approximately 85.58% on a fully diluted basis. WSS entered into an amendment to its operating agreement (the “WSS Operating Agreement Amendment”) to reflect the change in ownership.

Concurrently with the WSS Restructuring, Conversion Labs PR entered into option agreements with Sean Fitzpatrick (the “Fitzpatrick Option Agreement”) and Varun Pathak (the “Pathak Option Agreement” together with Fitzpatrick Option Agreement the “Option Agreements”), pursuant to which Conversion Labs PR granted options to purchase membership interest units of WSS. Upon vesting, the Fitzpatrick Options and the Pathak Options provide for the potential re-purchase of up to an additional 13.25% of WSS by Fitzpatrick and Pathak in the aggregate with Conversion Labs PR ownership ratably reduced to approximately 72.98%.

The Fitzpatrick Option Agreement grants Sean Fitzpatrick the option to purchase 10,300 membership interest units of WSS for an exercise price of \$1.00 per membership interest unit. The Fitzpatrick Options vest in accordance with the following (i) 3,434 membership interests upon WSS achieving \$2,500,000 of gross sales in any fiscal quarter (ii) 3,434 membership interests upon WSS achieving \$4,000,000 of gross sales in any fiscal quarter, and (iii) 3,434 membership interests upon WSS achieving \$8,000,000 of gross sales with a ten percent (10%) net profit margin in any fiscal quarter.

The Pathak Options shall vest in accordance with the following (i) 700 membership interests upon WSS achieving \$2,500,000 of gross sales in any fiscal quarter (ii) 700 membership interests upon WSS achieving \$4,000,000 of gross sales in any fiscal quarter, and (iii) 700 membership interests upon WSS achieving \$8,000,000 of gross sales with a ten percent (10%) net profit margin in any fiscal quarter.

The first two tranches of performance options granted to Sean Fitzpatrick and Varun Pathak vested immediately after the consummation of the restructuring transaction and therefore have been recorded as part of the acquisition through equity. The third tranche is not deemed probable and therefore has not been recognized to date.

Stock Options

2020 Equity Incentive Plan (the “2020 Plan”)

On January 8, 2021, the Company approved the Company’s 2020 Plan. Approval of the 2020 Plan was included as Proposal 1 in the Company’s definitive proxy statement for its Special Meeting of Shareholders filed with the Securities and Exchange Commission on December 7, 2020. The 2020 Plan is administered by the Compensation Committee of the Board of Directors (the “Board”) and initially provided for the issuance of up to 1,500,000 shares of Common Stock. The number of shares of Common Stock available for issuance under the 2020 Plan automatically increases by 150,000 shares of Common Stock on January 1st of each year, for a period of not more than ten years, commencing on January 1, 2021 and ending on (and including) January 1, 2030. Awards under the 2020 Plan can be granted in the form of stock options, non-qualified and incentive options, stock appreciation rights, restricted stock, and restricted stock units.

On June 24, 2021, at the Annual Meeting of Stockholders, the stockholders of the Company approved an amendment to the 2020 Plan to increase the maximum number of shares of the Company’s common stock available for issuance under the 2020 Plan by 1,500,000 shares. As of January 1, 2022, the Plan provided for the issuance of up to 3,300,000 shares of Common Stock. Remaining authorization under the 2020 Plan was 276,052 shares as of March 31, 2022.

The forms of award agreements to be used in connection with awards made under the 2020 Plan to the Company’s executive officers and non-employee directors are:

- Form of Non-Qualified Option Agreement (Non-Employee Director Awards)
- Form of Non-Qualified Option Agreement (Employee Awards); and
- Form of Restricted Stock Award Agreement.

Previously, the Company had granted service-based stock options and performance-based stock options separate from the 2020 Plan.

During the three months ended March 31, 2022, the Company issued an aggregate of 238,500 stock options to employees under the 2020 Plan and the prior plan. These stock options have a contractual term of 4 to 5 years and vest in increments which fully vest the options over a three-year period, dependent on the specific agreements' terms.

The following is a summary of outstanding options activity under our 2020 Plan for the three months ended March 31, 2022:

| | Options Outstanding Number of Shares | Exercise Price per Share | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price per Share |
|----------------------------------|---|-------------------------------------|--|--|
| Balance, December 31, 2021 | 2,063,500 | \$ 4.57 – 21.02 | 8.04 years | \$ 9.41 |
| Granted | 38,500 | 3.28 – 4.30 | 4.81 years | 3.69 |
| Cancelled/Forfeited/Expired | (78,802) | 7.07 | 8.85 years | 7.07 |
| Balance at March 31, 2022 | <u>2,023,198</u> | \$ 3.28 – 21.02 | 7.72 years | \$ 9.39 |
| Exercisable at December 31, 2021 | 636,229 | \$ 4.57 – 21.02 | 8.95 years | \$ 9.18 |
| Exercisable at March 31, 2022 | <u>787,411</u> | \$ 3.28 – 21.02 | 8.68 years | \$ 9.30 |

The total fair value of the options granted was approximately \$142,247, which was determined by the Black-Scholes Pricing Model with the following assumptions: dividend yield of 0%, expected term of 4 years, volatility of 387.81% – 465.55%, and risk-free rate of 1.26%–1.62%. Total compensation expense under the 2020 Plan options above was approximately \$1,644,490 and \$1,181,505 for the three months ended March 31, 2022 and 2021, respectively, with unamortized expense remaining of approximately \$11,916,040 as of March 31, 2022.

The following is a summary of outstanding service-based options activity (prior to the establishment of our 2020 Plan above) for the three months ended March 31, 2022:

| | Options Outstanding Number of Shares | Exercise Price per Share | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price per Share |
|-------------------------------|---|-------------------------------------|--|--|
| Balance, December 31, 2021 | 1,658,733 | \$ 1.00 – 19.61 | 5.85 years | \$ 5.45 |
| Granted | 50,000 | 4.12 | 4.76 years | 4.12 |
| Exercised | (40,000) | 1.40 | 1.19 years | 1.40 |
| Balance at March 31, 2022 | <u>1,668,733</u> | \$ 1.00 – 19.61 | 5.68 years | \$ 5.51 |
| Exercisable December 31, 2021 | 1,019,164 | \$ 1.00 – 19.61 | 5.21 years | \$ 3.60 |
| Exercisable at March 31, 2022 | <u>1,091,997</u> | \$ 1.00 – 19.61 | 5.21 years | \$ 3.97 |

The total fair value of the options granted was approximately \$205,995, which was determined by the Black-Scholes Pricing Model with the following assumptions: dividend yield of 0%, expected term of 4 years, volatility of 420.16% and risk-free rate of 1.37%. Total compensation expense under the above service-based option plan was approximately \$550,400 and \$406,534 for the three months ended March 31, 2022 and 2021, respectively, with unamortized expense remaining of approximately \$4,349,079 as of March 31, 2022. All of the service-based options exercised during the three months ended March 31, 2022, were exercised on a cashless basis which resulted in 25,535 shares issued.

The following is a summary of outstanding performance-based options activity for the three months ended March 31, 2022:

| | Options Outstanding Number of Shares | Exercise Price per Share | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price per Share |
|-------------------------------|---|-------------------------------------|--|--|
| Balance at December 31, 2021 | 535,000 | \$ 1.25 – 2.50 | 5.59 years | \$ 1.60 |
| Granted | <u>150,000</u> | 4.12 | 3.76 years | 4.12 |
| Balance at March 31, 2022 | <u>685,000</u> | \$ 1.25 – 4.12 | 5 years | \$ 2.15 |
| Exercisable December 31, 2021 | 100,000 | \$ 1.75 – 2.50 | 1.96 years | \$ 2.01 |
| Exercisable at March 31, 2022 | <u>100,000</u> | \$ 1.75 – 2.50 | 1.72 years | \$ 2.01 |

The total fair value of the options granted was approximately \$617,980, which was determined by the Black-Scholes Pricing Model with the following assumptions: dividend yield of 0%, expected term of 3.5 years, volatility of 444% and risk-free rate of 1.37%. Total compensation expense under the above performance-based option plan was approximately \$105,797 for the three months ended March 31, 2022, with unamortized expense remaining of approximately \$317,391. No compensation expense was recognized on the performance-based option plan above for the three months ended March 31, 2021 as the performance terms had not been met or were not probable.

Restricted Stock Units (RSUs) (under the 2020 Plan)

A summary of outstanding RSU activity under our 2020 Plan is as follows:

| | RSU Outstanding Number of Shares |
|------------------------------|---|
| Balance at December 31, 2021 | 375,375 |
| Granted | 547,500 |
| Vested | (60,375) |
| Balance at March 31, 2022 | 862,500 |

The total fair value of the 547,500 RSUs granted was approximately \$1,713,025 which was determined using the fair value of the quoted market price on the date of grant. Total compensation expense under the 2020 Plan RSUs above was approximately \$976,120 and \$12,163 for the three months ended March 31, 2022 and 2021, respectively, with unamortized expense remaining of approximately \$4,800,769 as of March 31, 2022. During the three months ended March 31 2022, 60,375 RSUs vested, of which 47,500 RSUs were issued.

RSUs (outside of 2020 Plan)

The Company granted 620,000 RSUs outside of the 2020 Plan during the year ended December 31, 2021. The total fair value of these RSUs was approximately \$6,867,600. Total compensation expense for RSUs outside of the 2020 Plan was \$591,000 and \$120,600 for the three months ended March 31, 2022 and 2021, respectively, with unamortized expense remaining of approximately \$5,430,000 as of March 31, 2022. During the three months ended March 31, 2022, 50,000 RSUs vested and were issued. As of March 31, 2022, 550,000 RSUs outside of the 2020 Plan remain outstanding.

Warrants

The following is a summary of outstanding and exercisable warrants activity during the three months ended March 31, 2022:

| | Warrants Outstanding Number of Shares | Exercise Price per Share | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price per Share |
|-------------------------------|--|-------------------------------------|--|--|
| Balance at December 31, 2021 | 3,888,438 | \$ 1.40 – 12.00 | 4.94 years | \$ 5.59 |
| Exercised | (22,000) | 1.75 | 0.21 years | 1.75 |
| Cancelled/Forfeited/Expired | (6,800) | 2.00 | - | 2.00 |
| Balance at March 31, 2022 | 3,859,638 | \$ 1.40 – 12.00 | 4.48 years | \$ 5.61 |
| Exercisable December 31, 2021 | 2,621,307 | \$ 1.40 – 12.00 | 6.36 years | \$ 5.98 |
| Exercisable March 31, 2022 | 3,546,232 | \$ 1.40 – 12.00 | 4.72 years | \$ 5.69 |

Total compensation expense on the above warrants for services was approximately \$604,974 for both the three months ended March 31, 2022 and 2021 with unamortized expense remaining of approximately \$1,042,253.

Stock-based Compensation

The total stock-based compensation expense related to common stock issued for services, service-based stock options, performance-based stock options, warrants and RSUs amounted to approximately \$4,472,781 and \$2,325,775 for the three months ended March 31, 2022 and 2021, respectively. Such amounts are included in general and administrative expenses in the unaudited condensed consolidated statement of operations. Unamortized expense remaining related to service-based stock options, performance-based stock options, warrants and RSUs was approximately \$27,855,532 as of March 31, 2022.

NOTE 8 – LEASES

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes all existing guidance on accounting for leases in ASC 840, *Lease Accounting*. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income.

The Company leases office space domestically under operating leases. The Company's headquarters are located in New York, New York for which the lease expires in 2025. We operate a marketing and sales center in Huntington Beach, California for which the lease expires in 2023, a patient care center in Greenville, South Carolina for which the lease expires in 2024 and a warehouse and fulfillment center in Columbia, Pennsylvania for which the lease expires in 2023.

The table below reconciles the undiscounted future minimum lease payments under the above noted operating leases to the total operating lease liabilities recognized on the consolidated balance sheet as of March 31, 2022:

| | | |
|--|----|------------------|
| Remainder of fiscal year 2022 | \$ | 614,098 |
| Fiscal year 2023 | | 732,409 |
| Fiscal year 2024 | | 484,580 |
| Fiscal year 2025 | | 68,850 |
| Less: imputed interest | | (159,404) |
| Present value of operating lease liabilities | \$ | <u>1,740,533</u> |

Operating lease expenses were \$202,412 and \$93,410 for the three months ended March 31, 2022 and 2021, respectively, and were included in other operating expenses in our consolidated statement of operations.

Supplemental cash flow information related to operating lease liabilities consisted of the following:

| | March 31, | |
|---|------------------|-------------|
| | 2022 | 2021 |
| Cash paid for operating lease liabilities | \$ 129,290 | \$ 89,935 |

Supplemental balance sheet information related to operating lease liabilities consisted of the following:

| | March 31, 2022 | December 31, 2021 |
|--|-----------------------|--------------------------|
| Weighted average remaining lease term in years | 3.51 | 3.75 |
| Weighted average discount rate | 7.15% | 7.15% |

We have elected to apply the short-term lease exception to the warehouse space we lease in Lancaster, Pennsylvania. This lease has a term of 12 months and is not recognized on the balance sheet, but rather expensed on a straight-line basis over the lease term. Straight-line lease payments are \$2,100 per month. Additionally, Conversion Labs PR utilizes office space in Puerto Rico, which is subleased from Fried LLC, on a month-to-month basis, incurring rental expense of approximately \$3,000 per month.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Royalty Agreements

During 2016, Conversion Labs PR entered into a sole and exclusive license, royalty and advisory agreement with Pilaris Laboratories, LLC (“Pilaris”) relating to Pilaris’ PilarisMax shampoo formulation and conditioner. The term of the agreement will be the life of the US Patent held by Pilaris, ten years. As consideration for granting Conversion Labs PR this license, Pilaris will receive on quarterly basis, 10% of the net income collected by the licensed products based on the following formula: Net Income = total income – cost of goods sold – advertising and operating expenses directly related to the marketing of the licensed products. As of March 31, 2022 and December 31, 2021, no amount was included in accounts payable and accrued expenses in regard to this agreement.

During 2018, the Company entered into a license agreement (the “Alphabet Agreement”) with M.ALPHABET, LLC (“Alphabet”), pursuant to which Alphabet agreed to license its PURPUREX business which consists of methods and compositions developed by Alphabet for the treatment of purpura, bruising, post-procedural bruising, and traumatic bruising (the “Product Line”). Pursuant to the license granted under the Alphabet Agreement, Conversion Labs PR obtains an exclusive license to incorporate (i) any intellectual property rights related to the Product Line and (ii) all designs, drawings, formulas, chemical compositions and specifications used or useable in the Product Line into one or more products manufactured, sold, and/or distributed by Alphabet for the treatment of purpura, bruising, post-procedural bruising and traumatic bruising and for all other fields of use or purposes (the “Licensed Product(s)”), and to make, have made, advertise, promote, market, sell, import, export, use, offer to sell, and distribute the Licensed Product(s) throughout the world with the exception of China, Hong Kong, Japan, and Australia (the “License”). The Company shall pay Alphabet a royalty equal to 13% of Gross Receipts (as defined in the Agreement) realized from the sales of Licensed Products. No amounts were earned or owed as of March 31, 2022.

Upon execution of the Alphabet Agreement, Alphabet was granted a 10-year stock option to purchase 20,000 shares of the Company’s common stock at an exercise price of \$2.50. Further, if Licensed Products have gross receipts of \$7,500,000 in any calendar year, the Company will grant Alphabet an option to purchase 20,000 shares of the Company’s common stock at an exercise price of \$2.50; (ii) if Licensed Products have gross receipts of \$10,000,000 in any calendar year, the Company will grant Alphabet an additional option to purchase 20,000 shares of the Company’s common stock at an exercise price of \$2.50 and (iii) if Licensed Products have gross receipts of \$20,000,000 in any calendar year, the Company will grant Alphabet an option to purchase 40,000 shares of the Company’s common stock at an exercise price of \$3.75. The likelihood of meeting these performance goals for the licensed products are remote and, therefore, the Company has not recognized any compensation.

Purchase Commitments

Many of the Company's vendors require product deposits when a purchase order is placed for goods or fulfillment services related to inventory requirements. The Company's history of product deposits with its inventory vendors, creates an implicit purchase commitment equaling the total expected product acceptance cost in excess of the product deposit. As of March 31, 2022 and December 31, 2021, the Company approximates its implicit purchase commitments to be \$1.3 million and \$511 thousand, respectively.

Legal Matters

In the normal course of business operations, the Company may become involved in various legal matters. As of March 31, 2022, other than as set forth below, the Company's management does not believe that there are any potential legal matters that could have an adverse effect on the Company's consolidated financial position.

On December 10, 2021, a purported breach of contract, breach of duty of good faith and fair dealing, unjust enrichment, quantum meruit, and fraud lawsuit, captioned *Harborside Advisors LLC v. LifeMD, Inc.*, Case No. 21-cv-10593, was filed in the United States District Court for the Southern District of New York against the Company. The Harborside Complaint alleges, among other things, that the Company breached a Consulting Services Agreement dated as of June 5, 2019, and Harborside was entitled to 1 million shares (*i.e.*, 200,000 shares post 5-for-1 reverse stock split) in the Company if the Conversion Labs Rx business achieved a topline revenue of \$10 million and an additional 1 million shares (*i.e.*, 200,000 shares post 5-for-1 reverse stock split) for each additional \$5 million in topline revenue up to a maximum of 5 million shares (*i.e.*, 1,000,000 shares post 5-for-1 reverse stock split). The Complaint further alleges that the Company fraudulently induced Harborside to give up its ownership interest in Conversion Labs Rx and that it was a breach of the duty of good faith and fair dealing and fraudulent for the Company to have dissolved Conversion Labs Rx. Consequently, alleges Harborside, the Company was unjustly enriched, and Harborside is entitled to recover from the Company for quantum meruit. The Harborside Complaint implies between \$5,020,000 and \$33,020,000 in alleged damages related to failure to award the aforementioned stock but only specifically states that "Harborside has incurred damages in excess of \$75,000, with the exact amount to be determined with specificity at trial" for each of the 5 counts. On February 11, 2022, the Company filed a Motion to Dismiss the Harborside Complaint, which Harborside opposed. The Company replied on April 4, 2022 and is currently awaiting a decision from the Court on whether the case will be fully or partially dismissed. The Company intends to continue to vigorously defend against this action. As this action is in its preliminary phase, a potential loss cannot yet be estimated.

On December 10, 2021, a purported breach of contract, unjust enrichment, quantum meruit, and account stated lawsuit, captioned *Specialty Medical Drugstore, LLC D/B/A GoGoMeds v. LifeMD, Inc.*, Case No. 21-cv-10599, was filed in the United States District Court for the Southern District of New York against the Company. The GoGoMeds Complaint alleges, among other things, that Conversion Labs Rx breached a Strategic Partnership Agreement (dated May 27, 2019) (the "SPA") by the Company not paying two invoices (#3269 and 3270) totaling \$273,859, and, therefore, "LifeMD has been unjustly enriched in an amount in excess of \$273,859, with the exact amount to be determined with specificity at trial." Further, GoGoMeds alleges that "to the extent that the SPA is inapplicable, GoGoMeds is entitled to recover from LifeMD from quantum meruit" because "GoGoMeds conferred a benefit on LifeMD by fulfilling over 17,000 prescriptions and over the counter drug orders for LifeMD's clients." On February 11, 2022, the Company filed its Answer and Counterclaim to the GoGoMeds Complaint, pleading the affirmative defenses that the claims are barred, in whole or in part: (i) because they fail to state claims upon which relief can be granted; (ii) by breach of contract by plaintiff; (iii) by offset, recoupment, and/or unjust enrichment to plaintiff; (iv) by accord and satisfaction; (v) for failure of condition precedent; (vi) because adequate remedies at law exist; (vii) by failure to mitigate; (viii) by the doctrine of unclean hands; and (ix) by consent ratification, waiver, excuse, and/or estoppel, (x) as well as that attorney fees and costs, as well as special, indirect, incidental, and/or consequential damages are not recoverable. Further, the Company counterclaimed against GoGoMeds for: (a) breach of contract for failing to: (i) provide adequate customer service and related pharmacy services; (ii) charge LifeMD actual costs for prescription and over the counter drugs (including shipping), as was contractually required; and (iii) provide regular reports and allow audits for review to establish adequate service and accurate costs; (b) trade secret misappropriation of the LifeMD Information, Data, and Materials, as defined therein; (c) unjust enrichment of GoGoMeds through its retention of such LifeMD Information, Data, and Materials, and for the benefit of the creation of the GoGoCare telehealth company; (d) conversion by GoGoMeds by exercising unauthorized dominion and control over the LifeMD Information, Data, and Materials; (e) detinue; and (f) an accounting. GoGoMeds' responded to the counterclaims on March 4, 2022 and the parties have commenced fact discovery. The Company intends to continue to vigorously defend against this action. As this action is in its preliminary phase, a potential loss cannot yet be estimated.

On February 28, 2022, a purported breach of contract lawsuit (with six counts of alleged breach, and indemnity reliance concerning reasonable costs and expenses), captioned *William Blair LLC v. LifeMD, Inc.*, Case No. 2022L001978, was filed in the Circuit Court of Cook County, Illinois County Department, Law Division against the Company (the “Blair Complaint”). The Blair Complaint alleges, among other things, that LifeMD breached an engagement letter agreement entered into on January 7, 2021 with Blair that concerned potential debt financing. In particular, Blair alleges that the Company breached its obligations by, *inter alia*: (i) failing to advise Blair of, and ultimately completing, a debt financing transaction with a different investment banking firm on or about June 3, 2021; (ii) reproducing several pages from a Confidential Information Brochure used in the Company’s debt financing transaction with a different investment banking firm; (iii) failing to provide Blair with a right of first refusal to be its joint active bookrunning manager for a common stock sales agreement that it executed on or about June 3, 2021, through a different investment banking firm; (iv) failing to provide Blair with a right of first refusal to be its joint active bookrunning manager for a common stock sales agreement that it executed on or about September 28, 2021, through a different investment banking firm (despite the Company having formally terminated the engagement letter with Blair on or about July 16, 2021); (v) failing to provide Blair with a right of first refusal to be its joint active bookrunning manager for a preferred stock offering that it executed on or about September 28, 2021, through two different investment banking firms as bookrunning co-managers (despite the Company having formally terminated the engagement letter with Blair on or about July 16, 2021); and (vi) purchasing a convertible note from a pharmaceutical investor in connection with its acquisition of all outstanding shares of allergy telehealth platform, Cleared. The Blair Complaint seeks damages adequate to compensate Blair for the aforementioned alleged breaches (*i.e.*, which implicitly meets or exceeds the purported \$1,000,000 minimum fee in the engagement letter), as well as reasonable costs and expenses incurred in this action. The Company’s response to the Blair Complaint is due on May 20, 2022. The Company intends to vigorously defend against this action. As this action is in its preliminary phase, a potential loss cannot yet be estimated.

NOTE 10 – RELATED PARTY TRANSACTIONS

Chief Executive Officer

Conversion Labs PR utilizes office space in Puerto Rico, which is subleased from Fried LLC, and incurs expense of approximately \$3,000 a month for this office space. The Company previously made payments to JLS Ventures, an entity wholly owned by our Chief Executive Officer (“CEO”), for rent on Conversion Labs PR’s Puerto Rico office space which was \$0 and \$22,500 for the three months ended March 31, 2022 and 2021, respectively.

Conversion Labs PR utilizes BV Global Fulfillment (“BV Global”), previously owned by a related person of the Company’s CEO, to warehouse a portion of the Company’s finished goods inventory and for fulfillment services. On December 31, 2021, the Company entered into an Asset Purchase Agreement (the “APA”) with BV Global and the owner (the “Owner”), whereby BV Global and the Owner agreed to sell to the Company certain purchased assets of BV Global in exchange for approximately \$9 thousand. Prior to entering into the APA, the Company paid a monthly fee of \$13,000 to \$16,000 for fulfillment services and reimbursed BV Global for their direct costs associated with shipping the Company’s products. The Company reimbursed BV Global a total of \$99,082 during the three months ended March 31, 2021. As of December 31, 2021, the Company owed BV Global \$61,824, which is included in accounts payable and accrued liabilities on the accompanying unaudited condensed consolidated balance sheets.

WorkSimpli Software

During the three months ended March 31, 2022 and 2021, WorkSimpli utilized LegalSubmit Pvt. Ltd. (“LegalSubmit”), a company owned by WorkSimpli’s Chief Software Engineer, to provide software development services. WorkSimpli paid LegalSubmit a total of \$299,370 and \$172,837 during the three months ended March 31, 2022 and 2021, respectively, for these services. There were no amounts owed to LegalSubmit as of both March 31, 2022 and December 31, 2021.

Amended Officer Employment Agreements

On January 27, 2022, the Company and Marc Benathen, our Chief Financial Officer (“CFO”), entered into the First Amendment to his employment agreement to provide that Mr. Benathen receive 75,000 RSUs, with 25,000 of the RSUs vesting on the grant date and the first and second anniversaries of the grant date. Additionally, the First Amendment to his employment agreement provided that Mr. Benathen is eligible to receive up to 250,000 Performance Stock Units (“PSUs”), which will vest subject to the Company achieving certain key revenue, EBITDA and share price appreciation milestones.

On January 27, 2022, the Company and our Chief Compliance Officer (“CCO”) entered into the First Amendment to his employment agreement to provide that our CCO receive 37,500 RSUs, with 12,500 of the RSUs vesting on the grant date and the first and second anniversaries of the grant date. Additionally, the First Amendment to his employment agreement provided that our CCO is eligible to receive up to 105,000 PSUs, which will vest subject to the Company achieving certain key revenue, EBITDA and share price appreciation milestones.

Officer Appointment

On February 4, 2022, Maria Stan was appointed as Controller and Principal Accounting Officer of the Company. In connection with her appointment as Principal Accounting Officer, Ms. Stan entered into an amendment to her employment agreement with the Company, whereby the Company granted her an additional long-term incentive award of 15,000 RSUs, with 5,000 units vesting on the grant date and the first and second anniversaries of the grant date, and 50,000 PSUs. The PSUs vest upon the achievement of certain key revenue, EBITDA and share price appreciation milestones.

NOTE 11 – SEGMENT DATA

Our portfolio of brands are included within two operating segments: Telehealth and WorkSimpli. We believe our current segments and brands within our segments complement one another and position us well for future growth. Relevant segment data for the three months ended March 31, 2022 and 2021 is as follows:

| | Three Months Ended March 31, | |
|-------------------------|------------------------------|-----------------|
| | 2022 | 2021 |
| Telehealth | | |
| Revenue | \$ 22,598,061 | \$ 13,283,315 |
| Gross margin | 77.5% | 76.5% |
| Operating loss | \$ (13,271,857) | \$ (10,114,985) |
| WorkSimpli | | |
| Revenue | \$ 6,444,776 | \$ 4,914,797 |
| Gross margin | 97.5% | 98.2% |
| Operating income (loss) | \$ 164,842 | \$ (1,803,352) |
| Consolidated | | |
| Revenue | \$ 29,042,837 | \$ 18,198,112 |
| Gross margin | 81.9% | 82.4% |
| Operating loss | \$ (13,107,015) | \$ (11,918,337) |

Relevant segment data as of March 31, 2022 and December 31, 2021 is as follows:

| | March 31, 2022 | December 31, 2021 |
|---------------------|----------------------|----------------------|
| Total Assets | | |
| Telehealth | \$ 43,553,660 | \$ 48,056,920 |
| WorkSimpli | 6,736,816 | 1,866,323 |
| Consolidated | <u>\$ 50,290,476</u> | <u>\$ 49,923,243</u> |

NOTE 12 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date these consolidated financial statements were issued and has identified the following:

On April 1, 2022, Justin Schreiber, the Company's CEO, entered into an Employment Agreement (the "Schreiber Employment Agreement") with the Company. The Schreiber Employment Agreement is for an indefinite term and may be terminated with or without cause. Pursuant to the Schreiber Employment Agreement, Mr. Schreiber will receive an annual base salary of \$300,000 and shall be eligible to earn a performance bonus in such amount, if any, as determined in the sole discretion of the Board, with a target amount of 75% of the base salary.

On April 25, 2022, the Board approved, subject to stockholder approval, an amendment to the 2020 Plan to increase the maximum number of shares of common stock available for issuance under the 2020 Plan by 1,500,000 shares. The amendment is being presented as Proposal 2 at the Annual Meeting of Stockholders, to be held on June 16, 2022.

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

Note Regarding Forward-Looking Statements

The following discussion should be read in conjunction with the financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q. Certain statements made in this discussion are "forward-looking statements" within the meaning of 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by the Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used herein, the words "anticipate," "believe," "estimate," "expect," "forecast," "future," "intend," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue" or the negative of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company's business, industry, and the Company's operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

The forward-looking statements made in this report are based only on events or information as of the date on which the statements are made in this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report and the documents we refer to in this report and have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect. These risks include, by way of example and without limitation:

- changes in the market acceptance of our products;
- increased levels of competition;
- changes in political, economic, or regulatory conditions generally and in the markets in which we operate;
- our ability to successfully commercialize our products on a large enough scale to generate profitable operations;
- our ability to maintain and develop relationships with customers and suppliers;
- our ability to quickly and effectively respond to new technological developments;
- our ability to protect our trade secrets or other proprietary rights, operate without infringing upon the proprietary rights of others and prevent others from infringing on our proprietary rights;
- our ability to successfully integrate acquired businesses or new brands;
- the impact of competitive products and pricing;
- supply constraints or difficulties;
- general economic and business conditions;
- business interruptions resulting from geo-political actions, including war, and terrorism or disease outbreaks (such as COVID-19);
- current and potential material weaknesses in our internal control over financial reporting;
- our ability to continue as a going concern;
- our need to raise additional funds in the future;
- our ability to successfully recruit and retain qualified personnel;
- our ability to successfully implement our business plan;
- our ability to successfully acquire, develop or commercialize new products and equipment;
- being able to scale our telehealth platform built to improve the experience and medical care provided to patients across the country;
- intellectual property claims brought by third parties; and
- the impact of any industry regulation.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or performance. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission (“SEC”). We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions.

As used in this Quarterly Report on Form 10-Q and unless otherwise indicated, the terms “Company,” “we,” “us,” and “our” refer to LifeMD, Inc. (formerly known as Conversion Labs, Inc.), our wholly-owned subsidiary LifeMD PR, LLC (formerly Immudyne PR LLC and Conversion Labs PR), a Puerto Rico limited liability company (“Conversion Labs PR”, or “CLPR”), our recent acquisition, Cleared Technologies PBC, a Delaware public benefit corporation (“Cleared”) and our majority-owned subsidiary WorkSimpli Software, LLC (formerly known as LegalSimpli Software, LLC), a Puerto Rico limited liability company (“WorkSimpli”). The affiliated network of medical Professional Corporations and medical Professional Associations administratively led by LifeMD Southern Patient Medical Care, P.C., is the Company’s variable interest entity in which we hold a controlling financial interest (“LifeMD PC”). Unless otherwise specified, all dollar amounts are expressed in United States dollars.

Corporate History

We were formed in the State of Delaware on May 24, 1994, under our prior name, Immudyne, Inc. We changed our name to Conversion Labs, Inc. on June 22, 2018 and then subsequently, on February 22, 2021, we changed our name to LifeMD, Inc. Further, in connection with our name change, we changed our trading symbol to LFMD. In June 2018, the Company closed the strategic acquisition of 51% of WorkSimpli, a company that provides a software as a service (“SaaS”) for converting, editing, signing and sharing PDF documents called PDFSimpli. Effective January 22, 2021, we consummated a transaction to restructure the ownership of WorkSimpli through a series of agreements and concurrently increased its ownership stake in WorkSimpli to 85.6%. On January 18, 2022, the Company acquired Cleared, a rapidly growing nationwide allergy telehealth platform that provides personalized treatments for allergy, asthma, and immunology.

Business Overview and Strategy

We are a direct-to-patient telehealth technology company that provides a smarter, cost-effective, and convenient way for Americans to access healthcare. We believe the traditional model of visiting a doctor’s office, visiting a local pharmacy, and returning to see a doctor for follow up care or prescription refills is inefficient, costly, and slow, and discourages many individuals from seeking much needed medical care. The U.S. healthcare system is undergoing a paradigm shift, thanks to new technologies and the emergence of telehealth. Direct-to-patient telehealth companies, like LifeMD, Inc., are leading the shift by connecting consumers digitally to licensed healthcare professionals for care across various needs, such as virtual primary care, men’s sexual health, dermatology, and others.

Our telehealth platform provides patients with access to licensed providers for diagnoses, virtual care, and prescription medications, often delivered on a recurring basis. In addition to our telehealth offerings, we sell complementary nutritional supplements and over-the-counter (“OTC”) products. Many of our products are available on a subscription basis, where patients can subscribe to receive regular shipments of prescribed medications or products. This creates convenience and discounted pricing opportunities for patients and recurring revenue streams for us. Our customer acquisition strategy combines strategic brand-building media placements, influencer partnerships, and direct response advertising methods across highly scalable marketing channels (i.e., national TV, streaming TV, streaming audio, YouTube, podcasts, Out of Home, print, magazines, online search, social media, and digital).

Since inception, we have helped more than 550,000 customers and patients, providing them greater access to high-quality, convenient, and affordable care in all 50 states. Our telehealth revenue increased 70% for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. Total revenue from recurring subscriptions is approximately 91%. In addition to our telehealth business, we own 85.6% of WorkSimpli, which operates PDFSimpli, a rapidly growing SaaS platform for converting, signing, editing, and sharing PDF documents. This business has seen 31% year over year revenue growth, with recurring revenue of 98%.

We believe that telehealth platforms like ours will fundamentally shift how individuals perceive and access healthcare in the United States, by necessity and by preference. With the average wait time to see a physician in the United States now greater than 29 days, according to a 2018 Merritt Hawkins Survey, and the United States’ projected significant shortfall of licensed physicians by 2030, we believe the U.S. healthcare infrastructure must change to accommodate patients. Timely and convenient access to healthcare and prescription medications is a critical factor in improving quality of care and patient outcomes. Our mission is to radically change healthcare with our portfolio of direct-to-patient telehealth brands that encompass on-demand medical treatment, online pharmacy, and OTC products. We want our brands to be top-of-mind for consumers considering telehealth.

In the United States, healthcare spending is currently \$4.0 trillion and is expected to grow to \$6.2 trillion by 2028, according to the Centers for Medicare and Medicaid Services. Physician services and prescription medications account for approximately 30% of healthcare spending, or over \$1 trillion annually, and we believe that we have the infrastructure, medical expertise, and technical know-how necessary to help shift a substantial portion of this market to an online, virtual format. We believe that we are well positioned to capitalize on this large-scale shift in healthcare.

We believe that an amazing customer experience, incredible healthcare, and new customer acquisition form the heart of our business. As is exemplified with our first brand, ShapiroMD, we have built a full line of proprietary and patented OTC products for male and female hair loss, U.S. Food and Drug Administration (“FDA”) approved OTC minoxidil, and now a telehealth platform offering that gives consumers access to virtual medical treatment and, when appropriate, a full line of oral and topical prescription medications for hair loss. Our men’s brand, RexMD, currently offers access to provider-based treatment through telehealth for men’s health conditions, such as sexual health and hair loss. RexMD continues to expand its treatment offerings to address additional chronic indications present in men’s health. We have built a platform that allows us to efficiently launch telehealth brands and offerings wherever we identify a market need. Our platform is supported by a driven team of digital marketing and branding experts, data analysts, designers, and engineers focused on building enduring brands.

Our Brand Portfolio

We have built a strategic portfolio of wholly-owned telehealth platform brands supported by an affiliated, 50-state physician network and an integrated national network of third party pharmacies that address large unmet needs in men’s health, hair loss, virtual primary care, and dermatology. We continue to experience aggressive growth across our brands.

Our process across each brand is to guide consumers through a medical intake process and product selection, after which a licensed U.S. physician conducts a virtual consultation and, if appropriate, prescribes prescription medications and/or recommends OTC products. Prescription medications and OTC products are filled by pharmacy fulfillment partners and shipped directly to the patient. The number of patients and customers we serve across the nation continues to increase at a robust pace, with more than 550,000 individuals having purchased our products and services to date.

Hair Loss: ShapiroMD

Launched in 2017, ShapiroMD is a telehealth platform brand that offers access to virtual medical treatment, prescription medications, patented-doctor formulated OTC products, an FDA approved medical device for male and female hair loss, and female specific topical compounded medications for hair loss through our telehealth platform. ShapiroMD has emerged as a leading destination for hair loss treatment across the United States and has served more than 250,000 customers and patients since inception with a 4.9-star Trustpilot rating.

Men’s Health: RexMD

Launched in 2019, RexMD is a men’s telehealth platform brand that offers access to virtual medical treatment for a variety of men’s health needs. After treatment from a licensed physician, if appropriate, one of our partner pharmacies will dispense and ship prescription medications and OTC products directly to the customer. Since RexMD’s initial launch in the erectile dysfunction treatment market, it has expanded into additional indications, including but not limited to, premature ejaculation, testosterone, and hair loss. Our vision for RexMD is to become a leading telehealth destination for men. RexMD has emerged as a leading men’s telehealth platform across the United States and has served more than 300,000 customers and patients since inception with a 4.5-star Trustpilot rating.

Variable Interest Entity: LifeMD Primary Care

Beta launched in the fourth quarter of 2021, LifeMD PC is a personalized, subscription-based virtual primary care platform. The LifeMD PC clinic provides patients in all 50 states with 24/7 access to a high-quality provider for their primary care, urgent care and chronic care needs. LifeMD PC offers a mobile first platform that incorporates virtual consultations and treatment, prescription medications, diagnostics, and imaging. LifeMD PC capabilities are supported by robust partnerships as further discussed below. No revenue was recorded related to the LifeMD PC during the three months ended March 31, 2022.

Dermatology: NavaMD

Launched in the first quarter of 2021, NavaMD is a female-oriented, tele-dermatology brand that offers access to virtual medical treatment from dermatologists and other providers, and, if appropriate, prescription oral and compounded topical medications to treat dermatological conditions such as aging and acne. In addition to the brand’s telehealth offerings, NavaMD’s proprietary products leverage intellectual property and proprietary formulations licensed from Restorsea, a leading medical grade skincare technology platform.

Restorsea’s clinically proven skincare technology platform is the result of more than \$50 million invested in R&D and intellectual property development, and Restorsea has received at least 35 patents along with broad industry and academic acclaim,

with its breakthrough clinical results having been published in the peer-reviewed Journal of Drugs in Dermatology and Journal of Clinical and Aesthetic Dermatology. NavaMD is one of the first direct-to-patient brands to offer this advanced skincare technology.

Allergy, Asthma & Immunology: Cleared

In January 2022, the Company acquired Cleared, a telehealth brand that provides personalized treatments for allergy, asthma, and immunology. Its offerings include in-home tests for both environmental and food allergies, prescriptions for allergies and asthma, and FDA-approved immunotherapies for treating chronic allergies. Cleared leverages a network of medical professionals and providers in all 50 states, a growing pipeline of pharmaceutical partners, and treatments and tests that cost up to 50 percent less than the brand-name competition. The offerings include free consultations and ongoing care from U.S.-licensed allergists and nurses.

Majority Owned Subsidiary: WorkSimpli

WorkSimpli operates PDFSimpli, an online SaaS platform that allows users to create, edit, convert, sign and share PDF documents. WorkSimpli was acquired through the purchase of 51% of the membership interests of WorkSimpli Software, LLC, a Puerto Rico limited liability company, which operates a marketing-driven software solutions business. In addition to WorkSimpli's growth business model, this acquisition added deep search engine optimization and search engine marketing expertise to the Company. On January 22, 2021, the Company increased its ownership of WorkSimpli to 85.6%.

Significant Developments During the Three Months Ended March 31, 2022

Cleared Acquisition

On January 18, 2022, the Company acquired Cleared, a rapidly growing nationwide allergy telehealth platform that provides personalized treatments for allergy, asthma, and immunology. The preliminary purchase price was approximately \$9.1 million, including cash paid upfront of approximately \$1.0 million and payable in the future of approximately \$3.0 million, and contingent consideration of \$5.1 million.

ResumeBuild Asset Purchase Agreement

In February 2022, WorkSimpli closed on an Asset Purchase Agreement (the "ResumeBuild APA") with East Fusion FZCO, a Dubai, UAE corporation (the "Seller"), whereby WorkSimpli acquired substantially all of the assets associated with the Seller's business offering subscription-based resume building software through SaaS online platforms (the "Acquisition"). WorkSimpli paid to the Seller a purchase price \$4,000,000. The Seller is also entitled to a minimum of \$500 thousand to be paid out in quarterly payments equal to the greater of 15% of net profits (as defined in the ResumeBuild APA) or \$62,500, for a two-year period ending on the two-year anniversary of the closing of the Acquisition. WorkSimpli borrowed the purchase price from the Company pursuant to a promissory note with the obligation secured by an equity purchase guarantee agreement and a stock option pledge agreement from Fitzpatrick Consulting, LLC and its sole member Sean Fitzpatrick, who is Co-Founder and President of WorkSimpli.

Supply Chain

The ongoing impact on business activity brought about by COVID-19 continues to evolve, globally in macro terms, and in micro terms, as such affects the Company. Among other things, our supply chain is subject to the effects of COVID-19, as well as to natural disasters and other events beyond our control, such as raw material, component, and labor shortages; global and regional shipping and logistics constraints; work stoppages; power outages; and the physical effects of climate change, including changes in weather patterns. In addition, human rights concerns, including forced labor and human trafficking, in foreign countries and associated governmental responses have the potential to disrupt our supply chain, and our operations could be adversely impacted. Although we do not believe that raw materials used in the products we sell are sourced from regions with forced labor concerns, any delays or other supply chain disruption resulting from these concerns, associated governmental responses, or a desire to source products, components, or materials from other manufacturers or regions could result in shipping delays, cancellations, penalty payments, or loss of revenue and market share, any of which could have a material adverse effect on our business, results of operations, cash flows, and financial condition.

In connection with these potential impacts on our supply chain, we are, as a general matter, seeing a trend of modest increases in (i) pricing on air and ocean freight, as well as for component and product parts, (ii) the overall time to receive shipments, and (iii) the overall time for shipment and delivery to our customers from third-party shippers.

Results of Operations

Revenue

Our financial results for the three months ended March 31, 2022 are summarized as follows in comparison to the three months ended March 31, 2021:

| | March 31, 2022 | | March 31, 2021 | |
|--|-----------------|------------|-----------------|------------|
| | \$ | % of Sales | \$ | % of Sales |
| Telehealth revenue, net | \$ 22,598,061 | 77.81% | \$ 13,283,315 | 72.99% |
| WorkSimpli revenue, net | 6,444,776 | 22.19% | 4,914,797 | 27.01% |
| Total revenue, net | 29,042,837 | 100% | 18,198,112 | 100% |
| Cost of telehealth revenue | 5,086,068 | 17.51% | 3,123,025 | 17.16% |
| Cost of WorkSimpli revenue | 162,107 | 0.56% | 88,032 | 0.49% |
| Total cost of revenue | 5,248,175 | 18.07% | 3,211,057 | 17.65% |
| Gross profit | 23,794,662 | 81.93% | 14,987,055 | 82.35% |
| Selling and marketing expenses | 21,909,825 | 75.45% | 18,640,731 | 102.43% |
| General and administrative expenses | 12,302,478 | 42.36% | 7,021,541 | 38.58% |
| Other operating expenses | 1,327,734 | 4.57% | 636,787 | 3.50% |
| Customer service expenses | 933,307 | 3.21% | 295,277 | 1.62% |
| Development costs | 428,333 | 1.47% | 311,056 | 1.71% |
| Total expenses | 36,901,677 | 127.06% | 26,905,392 | 147.84% |
| Operating loss | (13,107,015) | (45.13)% | (11,918,337) | (65.49)% |
| Other (expenses) income, net | (167,934) | (0.58)% | 45,451 | 0.25% |
| Net loss | (13,274,949) | (45.71)% | (11,872,886) | (65.24)% |
| Net income (loss) attributable to non-controlling interest | 24,726 | 0.09% | (270,503) | (1.48)% |
| Net loss attributable to LifeMD, Inc. | (13,299,675) | (45.80)% | (11,602,383) | (63.76)% |
| Preferred stock dividends | (776,563) | (2.67)% | - | -% |
| Net loss attributable to common shareholders | \$ (14,076,238) | (48.47)% | \$ (11,602,383) | (63.76)% |

Revenues for the three months ended March 31, 2022 were approximately \$29.0 million, an increase of 60% compared to approximately \$18.2 million for the three months ended March 31, 2021. The increase in revenues was attributable to both the increase in telehealth revenue of 70% and an increase in WorkSimpli revenue of 31%. Telehealth revenue accounts for 78% of total revenue and has increased during the three months ended March 31, 2022 due to an increase in online sales demand, with the majority of the growth of our telehealth brands, RexMD and ShapiroMD. WorkSimpli revenue accounts for 22% of total revenue and has steadily increased year over year due to a combination of higher demand, increased market awareness, enhanced digital capabilities, and continued marketing campaign expansion. While a portion of our growth could be attributable to the COVID-19 pandemic, management strongly believes our growth is primarily a result of the strength of our healthcare brands.

Total cost of revenue consists of the cost of (1) telehealth revenues, which primarily include product costs, pharmacy fulfillment costs, physician consult fees, and shipping costs directly attributable to our prescription and OTC products and (2) the cost of WorkSimpli revenue consisting primarily of information technology fees related to providing the services made available on our online platform. Total cost of revenue increased by approximately 63% to approximately \$5.2 million for the three months ended March 31, 2022 compared to approximately \$3.2 million for the three months ended March 31, 2021. The combined cost of revenue increase was due to increased sales volume during the three months ended March 31, 2022 when compared to the three months ended March 31, 2021. Telehealth costs decreased to 23% of associated telehealth revenues experienced during the three months ended March 31, 2022, from 24% of associated telehealth revenues during the three months ended March 31, 2021. WorkSimpli costs increased to 3% of associated WorkSimpli revenues for the three months ended March 31, 2022 as compared to 2% of associated WorkSimpli revenues for the three months ended March 31, 2021.

Gross profit increased by approximately 59% to approximately \$23.8 million for the three months ended March 31, 2022 compared to approximately \$15 million for the three months ended March 31, 2021, as a result of increased combined sales. Gross profit as a percentage of revenues was 82% for both the three months ended March 31, 2022 and March 31, 2021. Gross profit as a percentage of revenues for telehealth was 78% for the three months ended March 31, 2022 compared to 77% for the three months ended March 31, 2021, and for WorkSimpli was 98% for both the three months ended March 31, 2022 and March 31, 2021. More stringent inventory management procedures implemented in 2021 have contributed to the stabilization in gross profit.

Operating Expenses

Operating expenses for the three months ended March 31, 2022 were approximately \$36.9 million, as compared to approximately \$26.9 million for the three months ended March 31, 2021. This represents an increase of 37%, or \$10 million. The increase is primarily attributable to:

- (i) Selling and marketing expenses: This mainly consists of online marketing and advertising expenses. During the three months ended March 31, 2022, the Company had an increase of approximately \$3.3 million, or 18% in selling and marketing costs resulting from additional sales and marketing initiatives to drive the current period's sales growth reported. This ramp up is expected to both increase and maintain sustained revenue growth in future years, based on the Company's recurring revenue subscription-based sales model.

- (ii) General and administrative expenses: During the period ended March 31, 2022, stock-based compensation was \$4.5 million, with the majority related to stock compensation expense attributable to the service-based options. This category also consists of merchant processing fees, payroll expenses for corporate employees, amortization expense and legal and professional fees. During the three months ended March 31, 2022, the Company has had an increase of approximately \$5.3 million in general and administrative expenses, primarily related to the increase in stock-based compensation costs referenced above, and other increases in infrastructure expenses incurred to support the sales volume increases.
- (iii) Other operating expenses: This consists of rent, insurance, royalty expense, bank charges and information technology services for our online products. During the three months ended March 31, 2022, the Company had an increase of approximately \$691 thousand, or 109%, primarily related to increases in the general cost environment necessary to support the Company's sales growth.
- (iv) Customer service expenses: This consists of payroll and benefit expenses related to the Company's customer service department located in South Carolina and Puerto Rico. During the three months ended March 31, 2022, the Company had an increase of approximately \$638 thousand, primarily related to increases in headcount in the Company's customer service department.
- (v) Development costs: This mainly relates to third-party technology services for developing and maintaining our online platforms. During the three months ended March 31, 2022, the Company had an increase of approximately \$117 thousand, primarily resulting from technology platform improvements and amortization expense.

Other Income (Expense)

| | Three Months Ended March 31, | |
|--------------------------|-------------------------------------|------------------|
| | 2022 | 2021 |
| Interest expense, net | \$ (167,934) | \$ (139,463) |
| Gain on debt forgiveness | - | 184,914 |
| Total | \$ (167,934) | \$ 45,451 |

Other income (expense) consists of interest expense for the three months ended March 31, 2022 primarily related to interest accrued on the Series B Convertible Preferred Stock and interest expense and gain on debt forgiveness of Paycheck Protection Program loans for the three months ended March 31, 2021. Interest expense increased by approximately \$28 thousand during the three months ended March 31, 2022 as compared to the three months ended March 31, 2021.

Working Capital

| | March 31, 2022 | December 31, 2021 |
|------------------------|-----------------------|--------------------------|
| Current assets | \$ 29,579,462 | \$ 44,921,440 |
| Current liabilities | 25,612,668 | 22,825,589 |
| Working capital | \$ 3,966,794 | \$ 22,095,851 |

Working capital decreased by approximately \$18.1 million during the three months ended March 31, 2022. The decrease in current assets is primarily attributable to a decrease in cash of approximately \$16.2 million, a decrease in inventory of \$0.4 million partially offset by an increase in accounts receivable of approximately \$0.8 million. Current liabilities increased by \$2.8 million, which was primarily attributable to an increase in accounts payable and accrued expenses of \$2.6 million as a result of the Company extending payables and credit terms with vendors and accrual of the first noncontingent milestone payment related to the Cleared acquisition of \$1.5 million due on the first anniversary of the acquisition.

Liquidity and Capital Resources

| | Three Months Ended March 31, | |
|---|-------------------------------------|---------------------|
| | 2022 | 2021 |
| Net loss | \$ (13,274,949) | \$ (11,872,886) |
| Net cash used in operating activities | \$ (8,091,143) | \$ (9,106,829) |
| Net cash used in investing activities | \$ (7,378,189) | \$ (48,860) |
| Net cash (used in) provided by financing activities | \$ (774,063) | \$ 13,383,270 |
| Net (decrease) increase in cash | \$ (16,243,395) | \$ 4,227,581 |

Since inception, the Company has funded operations through the collections from revenues provided by the sales of its products, issuances of common and preferred stock, receipt of loans and advances from officers and directors and the issuance of convertible notes to third-party investors.

Net cash used in operating activities was approximately \$8.1 million for the three months ended March 31, 2022, as compared with approximately \$9.1 million three months ended March 31, 2021. The significant factors contributing to the cash used in operations during the three months ended March 31, 2022, include the net loss of approximately \$13.3 million (inclusive of \$4.5 million in non-cash, stock-based compensation charges), principally offset by the Company's increase in accounts payable of approximately \$0.7 million, excluding the \$1.5 million accrual for the first noncontingent milestone payment related to the Cleared acquisition due on the first anniversary of the acquisition.

Net cash used in investing activities for the three months ended March 31, 2022 was approximately \$7.4 million, as compared with approximately \$49 thousand for the three months ended March 31, 2021. Net cash used in investing activities was due to cash paid for capitalized software costs of approximately \$2.1 million, cash paid for the purchase of the ResumeBuild brand of approximately \$4.0 million and cash paid for the Cleared acquisition of approximately \$1.0 million.

Net cash used in financing activities for the three months ended March 31, 2022 was approximately \$774 thousand as compared with net cash provided by financing activities of approximately \$13.4 million for the three months ended March 31, 2021. During the three months ended March 31, 2022, financing activities consisted of preferred stock dividends of \$777 thousand, distributions to non-controlling interest of \$36 thousand and proceeds from the exercise of warrants of \$38 thousand.

Liquidity and Capital Resources Outlook

The Company has funded operations in the past through the sales of its products, issuance of common and preferred stock and through loans and advances from officers and directors. Our primary short-term and long-term requirements for liquidity and capital are for customer acquisition, fund business acquisitions and investments we may make from time to time, working capital including our noncancelable operating lease obligations, capital expenditures and general corporate purposes.

The Company's continued operations are dependent upon obtaining an increase in its sales volumes which the Company has been successful in achieving to date. The Company reviewed its forecasted operating results and sources and uses of cash used in management's assessment, which included the available financing, consideration of positive and negative evidence impacting management's forecasts, and market and industry factors. Positive indicators that lead to its conclusion that the Company will have sufficient cash over the next 12 months following the date of this report include: (1) its continued strengthening of the Company's revenues and improvement of operational efficiencies across the business, (2) the expected improvement in its cash burn rate over the next 12 months, (3) the Company's ability to raise up to \$150 million under the 2021 Shelf, with approximately \$59.5 million available under the ATM Sales Agreement and \$32 million available under the 2021 Shelf as of March 31 2022, (4) management's ability to curtail expenses if necessary, and (5) the overall market value of the telehealth industry and how it believes that will continue to drive interest in the Company.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in the notes to our unaudited condensed consolidated financial statements. We believe that the accounting policies below are critical for one to fully understand and evaluate our financial condition and results of operations.

Revenue Recognition

The Company records revenue under the adoption of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, by analyzing exchanges with its customers using a five-step analysis:

1. Identify the contract
2. Identify performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue

For the Company's product-based contracts with customers, the Company has determined that there is one performance obligation, which is the delivery of the product; this performance obligation is transferred at a discrete point in time. The Company generally records sales of finished products once the customer places and pays for the order, with the product being simultaneously shipped by a third-party fulfillment service provider; in limited cases, title does not pass until the product reaches the customer's delivery site, in these limited cases, recognition of revenue should be deferred until that time, however the Company does not have a process to properly record the recognition of revenue if orders are not immediately shipped, and deems the impact to be immaterial. In all cases, delivery is considered to have occurred when title and risk of loss have transferred to the customer, which is usually commensurate upon shipment of the product. In the case of its product-based contracts, the Company provides a

subscription sensitive service based on the recurring shipment of products and records the related revenue under the subscription agreements subsequent to receiving the monthly product order, recording the revenue at the time it fulfills the shipment obligation to the customer.

For its product-based contracts with customers, the Company records an estimate for provisions of discounts, returns, allowances, customer rebates and other adjustments for its product shipments, and are reflected as contra revenues in arriving at reported net revenues. The Company's discounts and customer rebates are known at the time of sale, correspondingly, the Company reduces gross product sales for such discounts and customer rebates. The Company estimates customer returns and allowances based on information derived from historical transaction detail, and accounts for such provisions, as contra revenue, during the same period in which the related revenues are earned. The Company has determined that the population of its product-based contracts with customers are homogenous, supporting the ability to record estimates for returns and allowances to be applied to the entire product-based portfolio population.

The Company, through its majority-owned subsidiary WorkSimpli, offers a subscription-based service providing a suite of software applications to its subscribers, principally on a monthly subscription basis. The software suite allows the subscriber/user to convert almost any type of document to another electronic form of editable document, providing ease of editing. For these subscription-based contracts with customers, the Company offers an initial 14-day trial period which is billed at \$1.95, followed by a monthly subscription, or a yearly subscription to the Company's software suite dependent on the subscriber's enrollment selection. The Company has estimated that there is one product and one performance obligation that is delivered over time, as the Company allows the subscriber to access the suite of services for the time period of the subscription purchased. The Company allows the customer to cancel at any point during the billing cycle, in which case the customer's subscription will not be renewed for the following month or year depending on the original subscription. The Company records the revenue over the customer's subscription period for monthly and yearly subscribers or at the end of the initial 14-day service period for customers who purchased the initial subscription, as the circumstances dictate. The Company offers a discount for the monthly or yearly subscriptions being purchased, which is deducted at the time of payment at the initiation of the contract term, therefore the Contract price is fixed and determinable at the contract initiation. Monthly and annual subscriptions for the service are recorded net of the Company's known discount rates. As of March 31, 2022 and December 31, 2021, the Company has accrued contract liabilities, as deferred revenue, of approximately \$1.8 million and \$1.5 million, respectively, which represent obligations on in-process monthly or yearly contracts with customers and a portion attributable to the yet to be recognized initial 14-day trial period collections.

Customer discounts, returns and rebates on telehealth revenues approximated \$1.5 million and \$1.2 million, respectively, during the three months ended March 31, 2022 and 2021. Customer discounts and allowances on WorkSimpli revenues approximated \$448 thousand and \$554 thousand, respectively, during the three months ended March 31, 2022 and 2021.

Capitalized Software Costs

The Company capitalizes certain internal payroll costs and third-party costs related to internally developed software and amortizes these costs using the straight-line method over the estimated useful life of the software, generally three years. The Company does not sell internally developed software other than through the use of subscription service. Certain development costs not meeting the criteria for capitalization, in accordance with ASC 350-40, *Internal-Use Software*, are expensed as incurred. As of March 31, 2022 and December 31, 2021, the Company capitalized \$5.7 million and \$3.6 million, respectively, related to internally developed software costs which is amortized over the useful life and included in development costs on our statement of operations.

Goodwill and Intangible Assets

Goodwill and intangible assets include those acquired in conjunction with the Cleared acquisition for which the purchase accounting is preliminary (see Note 3). Other amortizable intangible assets include: (1) intangible assets acquired related to the ResumeBuild brand (with original cost of approximately \$4.5 million) with an estimated useful life of five years, (2) a customer relationship asset (with original cost of approximately \$1,007,000) with an estimated useful life of three years, (3) a purchased license (with original cost of \$200,000) with an estimated useful life of ten years and (4) purchased domain names (with original costs of \$22,731) with estimated useful lives of three years. Intangible assets are amortized over their estimated lives using the straight-line method. Costs incurred to renew or extend the term of recognized intangible assets are capitalized and amortized over the useful life of the asset.

Income Taxes

The Company files corporate federal and state tax returns. Conversion Labs PR and WorkSimpli file tax returns in Puerto Rico. Both are limited liability companies and file separate tax returns with any tax liabilities or benefits passing through to its members.

The Company records current and deferred taxes in accordance with ASC 740, *Accounting for Income Taxes*. This ASC requires recognition of deferred tax assets and liabilities for temporary differences between tax basis of assets and liabilities and the amounts at which they are carried in the consolidated financial statements, based upon the enacted rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance, when necessary, to reduce deferred tax assets to the amount expected to be realized. The Company periodically assesses the value of its deferred tax asset, a majority of which has been generated by a history of net operating losses and management determines the necessity for a valuation allowance. ASC 740 also provides a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. Using this guidance, a company may recognize the tax benefit from an uncertain tax

position in its financial statements only if it is more likely-than-not (i.e., a likelihood of more than 50%) that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company's tax returns for all years since December 31, 2018, remain open to audit by all related taxing authorities.

Stock-based Compensation

The Company follows the provisions of ASC 718, *Share-Based Payment*. Under this guidance compensation cost generally is recognized at fair value on the date of the grant and amortized over the respective vesting or service period. The fair value of options at the date of grant is estimated using the Black-Scholes option pricing model. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of the Company's common stock shares using weekly price observations over an observation period that approximates the expected life of the options. The risk-free rate approximates the U.S. Treasury yield curve rate in effect at the time of grant for periods similar to the expected option life. Due to limited history of forfeitures, the Company has elected to account for forfeitures as they occur.

Many of the assumptions require significant judgment and any changes could have a material impact in the determination of stock-based compensation expense.

Recently Issued Accounting Standards

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805); Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This new guidance affects all entities that enter into a business combination within the scope of ASC 805-10. Under this new guidance, the acquirer should determine what contract assets and/or liabilities it would have recorded under ASC 606, *Revenue from Contracts with Customers*, as of the acquisition date, as if the acquirer had entered into the original contract at the same date and on the same terms as the acquirer. Under current U.S. GAAP, contract assets and contract liabilities acquired in a business combination are recorded by the acquirer at fair value. This update is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of this guidance will have on our consolidated financial statements and related disclosures.

Application of New or Revised Accounting Standards—Not Yet Adopted

All other accounting standards updates that have been issued or proposed by the FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our chief executive officer and chief financial officer concluded that, our disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting described below.

The ineffectiveness of the Company's internal control over financial reporting was due to the following material weaknesses which are indicative of many small companies with small number of staff:

- (i) inadequate segregation of duties consistent with control objectives;
- (ii) insufficient written policies and procedures for accounting and financial reporting with respects to the requirements and application of both U.S. GAAP and SEC Guidelines; and
- (iii) inadequate security and restricted access to computer systems including a disaster recovery plan.

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, such that these controls are designed, implemented, and operating effectively. The Company has added a functioning audit committee and adopted written policies on related party transactions and whistleblower protection. Additionally, the Company has added qualified independent outside directors and hired additional qualified officers and skilled accounting personnel. The other remediation actions planned include:

- (i) re-design of our accounting processes and control procedures;
- (ii) further documentation and implementation of control procedures and the implementation of control monitoring; and
- (iii) identify and remedy gaps in our security and restricted access policies to computer systems and implement a disaster recovery plan.

Changes in Internal Control over Financial Reporting

As discussed above, we are implementing certain measures to remediate the material weaknesses identified in the design and operation of our internal control over financial reporting. Other than those measures, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2022, that materially affected, our internal control over financial reporting as of that date.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our operations, we become involved in ordinary routine litigation incidental to the business. Material proceedings are described under Note 9, “Commitments and Contingencies” to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

An investment in the Company’s common stock involves a number of very significant risks. You should carefully consider the risk factors included in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 7, 2022, in addition to other information contained in our reports and in this quarterly report in evaluating the Company and its business before purchasing shares of our common stock. There have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2021. The Company’s business, operating results and financial condition could be adversely affected due to any of those risks.

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

The following disclosures set forth certain information with respect to all securities sold by the Company during the three months ended March 31, 2022 without registration under the Securities Act:

During the three months ended March 31, 2022, the Company issued an aggregate of 147,500 shares of common stock for services expensed in prior periods.

The above transactions did not involve any underwriters, underwriting discounts or commissions, or any public offering. The Company relied upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”) by virtue of Section 4(a)(2) thereof and/or Regulation D promulgated by the SEC under the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|----------------|--|---------------------------|---------|-----------------------------|
| | | Form | Exhibit | Filing Date/Period End Date |
| 2.1 | Stock Purchase Agreement, dated as of January 11, 2022, by and between LifeMD, Inc., Cleared Technologies, PBC and the Sellers listed therein | 8-K | 2.1 | 1/12/2022 |
| 2.2 | Asset Purchase Agreement, dated as of January 13, 2022, by and between WorkSimpli Software LLC and East Fusion FZCO | 8-K | 2.1 | 2/22/2022 |
| 2.3 | Promissory Note dated as of October 19, 2021, issued by WorkSimpli Software LLC to LifeMD, Inc. | 8-K | 2.2 | 2/22/2022 |
| 2.4 | First Addendum, dated as of February 14, 2022, to Promissory Note, issued by WorkSimpli Software LLC to LifeMD, Inc. | 8-K | 2.3 | 2/22/2022 |
| 2.5 | Equity Purchase Guarantee Agreement, dated as of February 14, 2022, by and among Fitzpatrick Consulting LLC, Sean Fitzpatrick and LifeMD, Inc. | 8-K | 2.4 | 2/22/2022 |
| 2.6 | Stock Option Pledge Agreement, dated as of February 12, 2022, by and between Fitzpatrick Consulting LLC and LifeMD, Inc. | 8-K | 2.5 | 2/22/2022 |
| 10.1# | First Amendment dated January 27, 2022 to the Employment Agreement between Marc Benathen and LifeMD, Inc. | 8-K | 10.1 | 2/2/2022 |
| 10.2# | First Amendment dated January 27, 2022 to the Employment Agreement between Eric Yecies and LifeMD, Inc. | 8-K | 10.2 | 2/2/2022 |
| 10.3# | First Amendment dated February 4, 2022 to the Employment Agreement between Maria Stan and LifeMD, Inc. | 8-K | 10.1 | 2/7/2022 |
| 10.4# | Employment Agreement dated March 15, 2021 between Maria Stan and LifeMD, Inc. | 8-K | 10.2 | 2/7/2022 |
| 31.1* | Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer. | | | |
| 31.2* | Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer. | | | |
| 32.1** | Section 1350 Certification of Chief Executive Officer. | | | |
| 32.2** | Section 1350 Certification of Chief Financial Officer. | | | |
| 101.INS* | Inline XBRL Instance Document | | | |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document | | | |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document | | | |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | |
| 104* | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.INS) | | | |

Indicates management contract or compensatory plan, contract or arrangement.

* Filed herewith.

**Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIFEMD, INC.

By: /s/ Justin Schreiber
Justin Schreiber
Chief Executive Officer and Chairman of the Board of
Directors
Date: May 13, 2022

By: /s/ Marc Benathen
Marc Benathen
Chief Financial Officer
Date: May 13, 2022

By: /s/ Maria Stan
Maria Stan
Principal Accounting Officer
Date: May 13, 2022