



PROGRESSIVE CARE

PROGRESSIVE CARE INC.

State of Incorporation: Delaware

**400 Ansin Blvd, Suite A
Hallandale Beach, FL 33009
(305) 760-2053
www.progressivecareus.com**

SIC Code: 5912

**QUARTERLY REPORT
For the Three and Nine Months Ended September 30, 2021
(the "Reporting Period")**

For more information:
www.OTCQB.com Ticker: RXMD
or
www.progressivecareus.com

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Disclosure Regarding Forward-Looking Statements

Any reference to “Progressive Care” (which also may be referred to as the “Company”, “we”, “us” or “our”) means Progressive Care, Inc. and its wholly-owned subsidiaries, PharmCo, LLC (referred to as “PharmCo 901”), Touchpoint RX, LLC doing business as PharmCo Rx 1002, LLC (referred to as “PharmCo 1002”), Family Physicians RX, Inc. doing business as PharmCoRx 1103 and PharmCoRx 1204 (referred to as “FPRX” historically or “PharmCo 1103” and “PharmCo 1204” currently) (pharmacy subsidiaries collectively referred to as “PharmCo”), ClearMetrX Inc and RXMD Therapeutics, Inc. You should read the following discussion of our consolidated financial condition and consolidated results of operations together with the audited consolidated financial statements and notes to the consolidated financial statements included elsewhere in this Quarterly Report.

This Quarterly Report and certain other communications made by us contain “forward-looking statements.” Forward-looking statements include, but are not limited to, statements about our financial position, business strategy, competitive position, potential growth opportunities, future operating performance, effects of competition, the effects of future legislation or regulations and plans and objectives of our management for future operations. Any statement made herein that is not a statement of historical fact should be considered a forward-looking statement. We have based our forward-looking statements on our management’s beliefs and assumptions based on information available to our management at the time the statements are made. Use of the words “may,” “should,” “continue,” “plan,” “potential,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “could,” “project,” “predict” or variations of such words and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

These forward-looking statements rely on assumptions, estimates and predictions that could be inaccurate and that are subject to risks and uncertainties that could cause actual results to differ materially from expected results. Forward-looking statements speak only as of the date of this Quarterly Report. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

Available Information

The Company’s common stock is currently quoted on the OTCQB under the trading symbol “RXMD.” As part of the OTCQB listing requirements, the Company is required to prepare and post material news, quarterly financial reports and annual audited financial reports on the OTCQB’s website. This quarterly report also summarizes various documents and other information. These summaries are qualified in their entirety by reference to the documents and information to which they relate.

Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices

| | |
|------------------------------|---|
| Exact name of the issuer: | Progressive Care Inc. |
| Principal Executive Offices: | 400 Ansin Boulevard, Suite A Hallandale Beach, FL 33009 Telephone: (305) 760-2053 Facsimile: (786) 657-2904 Website: www.progressivecareus.com |
| Public Relations: | Carlos Rangel 400 Ansin Boulevard, Suite A Hallandale Beach, FL 33009 Telephone: (305) 760-2053 Email Address: investors@progressivecareus.com |

Item 2. Shares Outstanding

The following table sets forth the number of shares outstanding for each class of securities authorized as of the dates set forth below:

| As of September 30, 2021 | | | | | |
|--------------------------|-----------------------------|------------------------------|---------------------------------------|---|--|
| Class | Number of Shares Authorized | Number of Shares Outstanding | Freely Tradable Shares (Public Float) | Total Number of Beneficial Stockholders | Total Number of Stockholders of Record |
| Common Stock | 1,000,000,000 | 527,871,715 | 447,275,822 | 6,291 | 209 |
| Preferred Stock | 10,000,000 | 51 | - | 1 | 1 |
| As of December 31, 2020 | | | | | |
| Class | Number of Shares Authorized | Number of Shares Outstanding | Freely Tradable Shares (Public Float) | Total Number of Beneficial Stockholders | Total Number of Stockholders of Record |
| Common Stock | 1,000,000,000 | 485,768,076 | 409,098,903 | 3,707 | 210 |
| Preferred Stock | 10,000,000 | 51 | - | 1 | 1 |
| As of December 31, 2019 | | | | | |
| Class | Number of Shares Authorized | Number of Shares Outstanding | Freely Tradable Shares (Public Float) | Total Number of Beneficial Stockholders | Total Number of Stockholders of Record |
| Common Stock | 1,000,000,000 | 436,280,944 | 350,611,771 | 3,452 | 218 |
| Preferred Stock | 10,000,000 | 51 | - | 1 | 1 |

Total number of shares of common stock issued and outstanding per the transfer agent is 535,430,294 as of November 12, 2021.

Share Issuances

On January 29, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$200,000 of note principal into 8,138,683 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On February 8, 2021, the Company issued 1,989,390 shares of its Common Stock to Stanley Campbell, CEO of EagleForce Health, LLC under a service agreement dated February 8, 2021. The shares were initially valued at \$75,000. The control person of EagleForce Health, LLC is Stanley Campbell.

On February 12, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$200,000 of note principal into 8,038,585 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On March 1, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$380,880 of note principal into 10,580,000 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On March 8, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$119,249 of note principal into 2,922,794 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On March 15, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$141,850 of note principal into 2,551,259 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On April 22, 2021, the Company issued 107,142 shares of its Common Stock to Luther Campbell under a representative agreement dated March 25, 2021. The shares were initially valued at \$5,679. The control person is Luther Campbell.

On August 3, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$200,000 of note principal into 4,945,598 shares of Progressive Care common stock. The control person for Iliad Research was John F. Fife.

On August 19, 2021, the Company issued 943,396 shares of its Common Stock to Alan Jay Weisberg under a directors' agreement dated July 21, 2021. The shares were valued at \$50,000 on July 21, 2021, the date of the Board resolution for the share issuance. The control person is Alan Jay Weisberg.

On August 19, 2021, the Company issued 943,396 shares of its Common Stock to Jervis Hough under a directors' agreement dated July 21, 2021. The shares were valued at \$50,000 on July 21, 2021, the date of the Board resolution for the share issuance. The control person is Jervis Hough.

On August 19, 2021, the Company issued 943,396 shares of its Common Stock to Oleg Firer under a directors' agreement dated July 21, 2021. The shares were valued at \$50,000 on July 21, 2021, the date of the Board resolution for the share issuance. The control person is Oleg Firer.

Item 3. Condensed Consolidated Financial Statements

The following condensed consolidated financial statements are filed as part of this report:

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Progressive Care Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

| | September 30, 2021 (Unaudited) | December 31, 2020 (1) |
|--|--------------------------------------|-----------------------------|
| <u>Assets</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,100,854 | \$ 2,100,695 |
| Accounts receivable – trade, net | 2,667,288 | 2,580,509 |
| Accounts receivable - other | 679,653 | 811,235 |
| Inventory, net | 1,157,250 | 945,274 |
| Prepaid expenses | 652,081 | 466,490 |
| Total Current Assets | 7,257,126 | 6,904,203 |
| Property and equipment, net | 2,543,755 | 2,532,433 |
| Other Assets | | |
| Goodwill | 1,387,860 | 1,387,860 |
| Intangible assets, net | 83,907 | 247,142 |
| Right of use assets, net | 727,604 | 436,368 |
| Deposits | 38,637 | 36,401 |
| Total Other Assets | 2,238,008 | 2,107,771 |
| Total Assets | \$ 12,038,889 | \$ 11,544,407 |
| <u>Liabilities and Stockholders' Equity (Deficiency)</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 7,021,133 | \$ 6,551,230 |
| Notes payable, net of unamortized debt discount and debt issuance costs, current portion | 1,792,386 | 570,914 |
| Lease liabilities - current portion | 217,134 | 197,975 |
| Unearned revenue | 408,362 | 450,155 |
| Derivative liability | 1,129,360 | 2,043,000 |
| Total Current Liabilities | 10,568,375 | 9,813,274 |
| Long-term Liabilities | | |
| Notes payable, net of current portion | 784,155 | 3,130,622 |
| Lease liabilities - net of current portion | 569,664 | 320,563 |
| Total Liabilities | 11,922,194 | 13,264,459 |
| Commitments and Contingencies | | |
| Stockholders' Equity (Deficiency) | | |
| Preferred Stock, Series A par value \$0.001; 10,000,000 shares authorized, 51 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively | - | - |
| Common stock, par value \$0.0001; 1,000,000,000 shares authorized, 527,871,715 and 485,768,076 issued and outstanding as of September 30, 2021 and December 31, 2020, respectively | 52,787 | 48,577 |
| Additional paid-in capital | 8,446,749 | 6,978,301 |
| Accumulated Deficit | (8,382,841) | (8,746,930) |
| Total Stockholders' Equity (Deficiency) | 116,695 | (1,720,052) |
| Total Liabilities and Stockholders' Equity (Deficiency) | \$ 12,038,889 | \$ 11,544,407 |

⁽¹⁾The information in this column was derived from the Company's audited consolidated financial statements as of December 31, 2020.

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Progressive Care Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2021 and 2020 (Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|---------------|---------------------------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues, net | \$ 9,797,523 | \$ 10,471,015 | \$ 28,999,122 | \$ 28,770,960 |
| Cost of revenue | 6,871,206 | 7,608,749 | 21,031,826 | 22,462,377 |
| Gross profit | 2,926,317 | 2,862,266 | 7,967,296 | 6,308,583 |
| Selling, general and administrative expenses | | | | |
| Bad debt expense | 30,904 | 133,000 | 152,953 | 192,485 |
| Share-based compensation | 41,667 | - | 189,012 | - |
| Other selling, general and administrative expenses | 2,629,811 | 2,634,693 | 8,230,688 | 7,347,709 |
| Total selling, general and administrative expenses | 2,702,382 | 2,767,693 | 8,572,653 | 7,540,194 |
| Income (loss) from operations | 223,935 | 94,573 | (605,357) | (1,231,611) |
| Other income (expense) | | | | |
| Change in fair value of derivative liability | 225,130 | - | 913,640 | 881,000 |
| Gain on debt extinguishment | 421,400 | - | 1,056,225 | - |
| Loss on disposal of fixed assets | (8,237) | - | (8,237) | - |
| Interest income | 1 | 26 | 10 | 140 |
| Interest expense | (335,750) | (357,439) | (985,163) | (1,084,198) |
| Total other income (expense) | 302,544 | (357,413) | 976,475 | (203,058) |
| Income (loss) before provision for income taxes | 526,479 | (262,840) | 371,118 | (1,434,669) |
| Benefit from (provision for) income taxes | 1,920 | - | (7,029) | (6,780) |
| Net income (loss) | \$ 528,399 | \$ (262,840) | \$ 364,089 | \$ (1,441,449) |
| Basic and diluted net income (loss) per common share | \$ - | \$ - | \$ - | \$ - |
| Weighted average number of common shares outstanding during the period - basic | 516,284,388 | 459,508,465 | 515,389,061 | 457,224,832 |
| Weighted average number of common shares outstanding during the period - diluted | 603,756,129 | 459,508,465 | 604,651,456 | 457,224,832 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Progressive Care Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity (Deficiency)
For the Three and Nine Months Ended September 30, 2021 (Unaudited)

| | Preferred Series A | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity (Deficiency) |
|---|--------------------|-------------|--------------------|------------------|----------------------------------|------------------------|--|
| | \$0.001 Par Value | | \$0.0001 Par Value | | | | |
| | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2020 | 51 | \$ - | 485,768,076 | \$ 48,577 | \$ 6,978,301 | \$ (8,746,930) | \$ (1,720,052) |
| <i>Issuance of common stock for settlement of debt principal and interest</i> | | | 32,231,321 | 3,223 | 1,038,756 | | 1,041,979 |
| <i>Issuance of common stock for services rendered</i> | | | 1,989,390 | 199 | 74,801 | | 75,000 |
| <i>Net income for the three months ended March 31, 2021</i> | | | | | | 26,852 | 26,852 |
| Balance March 31, 2021 | 51 | \$ - | 519,988,787 | \$ 51,999 | \$ 8,091,858 | \$ (8,720,078) | \$ (576,221) |
| <i>Issuance of common stock for services rendered</i> | | | 107,142 | 11 | 5,668 | | 5,679 |
| <i>Net income for the three months ended June 30, 2021</i> | | | | | | (191,162) | (191,162) |
| Balance June 30, 2021 | 51 | \$ - | 520,095,929 | \$ 52,010 | \$ 8,097,526 | \$ (8,911,240) | \$ (761,704) |
| <i>Issuance of common stock for settlement of debt principal and interest</i> | | | 4,945,598 | 495 | 199,505 | | 200,000 |
| <i>Issuance of common stock for services rendered</i> | | | 2,830,188 | 282 | 149,718 | | 150,000 |
| <i>Net income for the three months ended September 30, 2021</i> | | | | | | 528,399 | 528,399 |
| Balance September 30, 2021 | 51 | \$ - | 527,871,715 | \$ 52,787 | \$ 8,446,749 | \$ (8,382,841) | \$ 116,695 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Progressive Care Inc. and Subsidiaries
Condensed Consolidated Statements of Deficiency in Stockholders' Equity
For the Three and Nine months Ended September 30, 2020 (Unaudited)

| | Preferred Series A | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Deficiency In Stockholders' Equity |
|--|--------------------|--------|--------------------|-----------|----------------------------------|------------------------|--|
| | \$0.001 Par Value | | \$0.0001 Par Value | | | | |
| | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2019 | 51 | \$ - | 436,280,944 | \$ 43,628 | \$ 4,997,391 | \$ (7,297,121) | \$ (2,256,102) |
| Issuance of common stock for settlement of debt principal and interest | | | 13,228,310 | 1,323 | 578,677 | | 580,000 |
| Net loss for the three months ended March 31, 2020 | | | | | | (604,065) | (604,065) |
| Balance March 31, 2020 | 51 | \$ - | 449,509,254 | \$ 44,951 | \$ 5,576,068 | \$ (7,901,186) | \$ (2,280,167) |
| Issuance of common stock for settlement of debt principal and interest | | | 24,012,777 | 2,401 | 747,599 | | 750,000 |
| Issuance of common stock for services rendered | | | 1,000,000 | 100 | 48,100 | | 48,200 |
| Net loss for the three months ended June 30, 2020 | | | | | | (574,544) | (574,544) |
| Balance June 30, 2020 | 51 | \$ - | 474,522,031 | \$ 47,452 | \$ 6,371,767 | \$ (8,475,730) | \$ (2,056,511) |
| Issuance of common stock for consulting services | | | 5,750,831 | 575 | 229,504 | | 230,079 |
| Issuance of common stock for business acquisition | | | (10,000,000) | (1,000) | 1,000 | | - |
| Net loss for the three months ended September 30, 2020 | | | | | | (262,840) | (262,840) |
| Balance September 30, 2020 | 51 | \$ - | 470,272,862 | \$ 47,027 | \$ 6,602,271 | \$ (8,738,570) | \$ (2,089,272) |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Progressive Care Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2021 and 2020 (Unaudited)

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ 364,089 | \$ (1,441,449) |
| <i>Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:</i> | | |
| Depreciation | 135,949 | 168,028 |
| Change in provision for doubtful accounts | 45,700 | 185,660 |
| Share-based compensation | 189,012 | 48,200 |
| Amortization of debt issuance costs and debt discounts | 729,280 | 742,303 |
| Gain on debt extinguishment | (1,056,225) | - |
| Amortization of right of use assets-Finance leases | 25,008 | 62,168 |
| Amortization of right of use assets-Operating leases | 148,986 | 84,533 |
| Change in fair value of derivative liability | (913,640) | (881,000) |
| Amortization of intangible assets | 163,235 | 256,650 |
| <i>Changes in operating assets and liabilities:</i> | | |
| <i>(Increase) decrease in:</i> | | |
| Accounts receivable | (897) | (532,794) |
| Inventory | (211,976) | 99,473 |
| Prepaid expenses | (17,611) | (102,229) |
| Deposits | (2,236) | (14,584) |
| <i>Increase (decrease) in:</i> | | |
| Accounts payable and accrued liabilities | 469,903 | 1,866,274 |
| Operating lease liabilities | (141,353) | (182,600) |
| Unearned revenue | (41,793) | 72,371 |
| Deferred rent payable | - | 31,695 |
| Net cash (used in) provided by operating activities | (114,569) | 462,699 |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (132,702) | (552,879) |
| Net Cash (Used in) Investing Activities | (132,702) | (552,879) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of notes payable | 421,400 | 1,013,900 |
| Payments of notes payable | (126,190) | (35,053) |
| Payments on lease liabilities | (47,780) | (18,100) |
| Net Cash Provided by Financing Activities | 247,430 | 960,747 |
| Net increase in cash and cash equivalents | 159 | 870,567 |
| Cash and cash equivalents at beginning of period | 2,100,695 | 816,637 |
| Cash and cash equivalents at end of period | \$ 2,100,854 | \$ 1,687,204 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 57,303 | \$ 202,165 |
| Cash paid for income taxes | \$ 7,029 | \$ 6,780 |

Supplemental Schedule of non-cash investing and financing activities:

| | | | | |
|---|----|------------------|----|----------------|
| <i>Debt principal and interest repaid through conversion into common stock shares</i> | \$ | <u>1,241,979</u> | \$ | <u>-</u> |
| <i>Issuance of common stock for services rendered</i> | \$ | <u>230,397</u> | \$ | <u>48,200</u> |
| <i>Adoption of ASC topic for operating lease obligations:</i> | | | | |
| <i>Right of use asset</i> | \$ | <u>-</u> | \$ | <u>171,420</u> |
| <i>Right of use liability</i> | \$ | <u>-</u> | \$ | <u>239,400</u> |
| <i>Insurance premiums financed through issuance of note payable</i> | \$ | <u>126,313</u> | \$ | <u>-</u> |
| <i>Equipment purchase financed through issuance of note payable</i> | \$ | <u>14,569</u> | \$ | <u>-</u> |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Progressive Care Inc. and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021, and 2020

Note 1 Organization & Nature of Operations

Progressive Care Inc. (“Progressive”) was incorporated under the laws of the state of Delaware on October 31, 2006.

Progressive, through its wholly-owned subsidiaries, PharmCo, LLC (referred to as “PharmCo 901”), Touchpoint RX, LLC doing business as PharmCo Rx 1002, LLC (referred to as “PharmCo 1002”), Family Physicians RX, Inc. doing business as PharmCoRx 1103 and PharmCoRx 1204 (referred to as “FPRX” historically or “PharmCo 1103” and “PharmCo 1204” currently) (pharmacy subsidiaries collectively referred to as “PharmCo”), ClearMetrX Inc. and RXMD Therapeutics, Inc (collectively with all entities referred to as the “Company”, or “we”) is a personalized healthcare services and technology company that provides prescription pharmaceuticals and risk and data management services to healthcare organizations and providers.

PharmCo 901 was formed on November 29, 2005 as a Florida Limited Liability Company and is a 100% owned subsidiary of Progressive. PharmCo 901 was acquired by Progressive on October 21, 2010. We currently deliver prescriptions to Florida’s diverse population and ship medications to patients in states where we hold non-resident pharmacy licenses as well. We currently hold Florida Community Pharmacy Permits at all Florida pharmacy locations and our PharmCo 901 location is licensed as a non-resident pharmacy in the following states: Arizona, Colorado, Connecticut, Georgia, Illinois, Minnesota, Nevada, New Jersey, New York, Pennsylvania, Texas, and Utah. We are able to dispense to patients in the state of Massachusetts without a non-resident pharmacy license because Massachusetts does not require such a license for these activities.

FPRX is a pharmacy with locations in North Miami Beach and Orlando, Florida that provides PharmCo’s pharmacy services to Broward County, the Orlando/Tampa corridor, and the Treasure Coast of Florida. Progressive acquired all of the ownership interests in FPRX in a purchase agreement entered into on June 1, 2019.

PharmCo 1002 is a pharmacy located in Palm Springs, Florida that provides PharmCo’s pharmacy services to Palm Beach, St. Lucie and Martin Counties, Florida. Progressive acquired all of the ownership interests in PharmCo 1002 in a purchase agreement entered into on July 1, 2018.

ClearMetrX was formed on June 10, 2020 and provides third party administration services to 340B covered entities. ClearMetrX also provides data analytics and reporting services to support and improve care management for health care organizations.

RXMD Therapeutics was formed on October 1, 2019. RXMD Therapeutics had no operating activity to date.

Note 2 Basis of Presentation

The Company’s fiscal year end is December 31. The Company uses the accrual method of accounting. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. The December 31, 2020, balance sheet has been derived from audited consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2021, and 2020 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements.

The unaudited financial information included in this report includes all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2021, are not necessarily indicative of the results of the full fiscal year.

The unaudited condensed consolidated financial statements included in this report should be read in conjunction with the financial statements and notes thereto included in the Company’s financial statements for the fiscal year ended December 31, 2020.

Note 3 Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Progressive and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

Progressive Care Inc. and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021, and 2020

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Such estimates and assumptions impact both assets and liabilities, including but not limited to: net realizable value of accounts receivable and inventories, estimated useful lives and potential impairment of long lived assets and goodwill, estimated fair value of derivative liabilities using the Monte Carlo simulation model, fair value of assets acquired and liabilities assumed in business combinations, and estimates of current and deferred tax assets and liabilities.

Making estimates requires management to exercise significant judgment. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, and reserves and allowances, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, and national customers and markets. We have made estimates of the impact of COVID-19 within our unaudited condensed consolidated financial statements and there may be changes to those estimates in future periods. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Company had \$1,058,097 of cash in excess of insured amounts at September 30, 2021. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk associated with its cash and cash equivalent balances, since our deposits are held with high quality financial institutions that are well capitalized.

Cash Equivalents: The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. As of September 30, 2021 and December 31, 2020, the Company's cash equivalents consist of a money market account.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the invoiced amount. Trade accounts receivable primarily include amounts from third-party pharmacy benefit managers and insurance providers and are based on contracted prices. Trade accounts receivable are unsecured and require no collateral. The Company recorded an allowance for doubtful accounts for estimated differences between the expected and actual payment of accounts receivable. These reductions were made based upon reasonable and reliable estimates that were determined by reference to historical experience, contractual terms, and current conditions. Each quarter, the Company reevaluates its estimates to assess the adequacy of its allowance and adjusts the amounts as necessary. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Risks and Uncertainties

The Company's operations are subject to intense competition, risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure.

Billing Concentrations

The Company's primary trade receivables are primarily from prescription medications billed to various insurance providers. Ultimately, the insured is responsible for payment should the insurance company not reimburse the Company. The Company generated reimbursements from three significant insurance providers for the nine months ended September 30, 2021:

| Payors | |
|---------------|-----|
| A | 36% |
| B | 31% |
| C | 12% |

The Company generated reimbursements from three significant pharmacy benefit managers (PBMs) for the nine months ended September 30, 2021:

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PBMs

| | |
|---|-----|
| A | 59% |
| B | 31% |
| C | 5% |

Inventory

Inventory is valued on a lower of first-in, first-out (FIFO) cost or net realizable value basis. Inventory primarily consists of prescription medications, pharmacy supplies, and retail items. The Company provides a valuation allowance for obsolescence and slow-moving items. The Company recorded an allowance for obsolescence of approximately \$40,000 as of September 30, 2021 and December 31, 2020.

Property and Equipment

Property and equipment are recorded at cost or fair value if acquired as part of a business combination. Property and equipment are depreciated or amortized using the straight-line method over their estimated useful lives. Upon the retirement or disposition of property and equipment, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded, when appropriate. Expenditures for maintenance and repairs are charged to expense as incurred. Estimated useful lives of property and equipment as follows:

| Description | Estimated Useful Life |
|-------------------------------------|--|
| Building | 40 years |
| Leasehold improvements and fixtures | Lesser of estimated useful life or life of lease |
| Furniture and equipment | 5 years |
| Computer equipment and software | 3 years |
| Vehicles | 3-5 years |

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment charges for the three and nine months ended September 30, 2021, and 2020.

Business acquisitions

The Company records business acquisitions using the acquisition method of accounting. All of the assets acquired, liabilities assumed, and contractual contingencies are recognized at their fair value on the acquisition date. The application of the acquisition method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized and goodwill. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred.

Goodwill

Goodwill represents the excess of the purchase price of FPRX and PharmCo 1002 over the value assigned to their net tangible and identifiable intangible assets. FPRX and PharmCo 1002 are considered to be the reporting units for goodwill. Acquired intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. Valuation techniques consistent with the market approach, income approach, and/or cost approach are used to measure fair value. Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and in interim periods if events or changes in circumstances indicate that the assets may be impaired.

For both reporting units for the nine months ended September 30, 2021, we qualitatively assessed whether it is more likely than not that

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the respective fair values of the reporting units are less than their carrying amounts, including goodwill. Based on that assessment, we determined that this condition for the FPRX and PharmCo 1002 reporting units does not exist. As such, performing the first step of the two-step impairment test for the FPRX and PharmCo 1002 reporting units was not necessary, and no goodwill impairment loss was recorded for the nine months ended September 30, 2021.

Intangible Assets

The amortization of identifiable intangible assets generally represent the cost of client relationships and trade names acquired, as well as non-compete agreements to which the Company is a party. In valuing these assets, the Company makes assumptions regarding useful lives and projected growth rates, and significant judgment is required. The Company periodically reviews its identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of those assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment losses, if any.

Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) Topic 820 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities (both common stock and preferred stock) that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Unadjusted observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government, agency mortgage-backed debt securities, non-agency structured securities, corporate debt securities and preferred stocks.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The following table presents the Company’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2021, and December 31, 2020:

| Description | Level 1 | Level 2 | Level 3 | Balance at September 30, 2021 |
|------------------------|---------|---------|--------------|-------------------------------------|
| Derivative Liabilities | \$ - | \$ - | \$ 1,129,360 | \$ 1,129,360 |

| Description | Level 1 | Level 2 | Level 3 | Balance at December 31, 2020 |
|------------------------|---------|---------|--------------|------------------------------------|
| Derivative Liabilities | \$ - | \$ - | \$ 2,043,000 | \$ 2,043,000 |

The following table is a roll forward of the opening and closing balances for assets and liabilities measured at fair value on a

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recurring basis using significant unobservable inputs (Level 3).

| | | September 30, 2021 | December 31, 2020 |
|--|----|-------------------------------|-------------------------------|
| | | Derivative Liabilities | Derivative Liabilities |
| Beginning balance | \$ | 2,043,000 | 2,857,000 |
| Transfers into (out of) Level 3 | | | |
| Total (gains) or losses for the period | | | |
| Included in net income for the period | | (913,640) | (814,000) |
| Ending balance | \$ | 1,129,360 | 2,043,000 |

Total gains for the three and nine months ended September 30, 2021 are included in net income (loss) for the period.

Fair Value of Financial Instruments

The Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, lease liabilities, and notes payable. The carrying amounts of the Company's financial instruments other than notes payable and capital lease obligations generally approximate their fair values at September 30, 2021 and December 31, 2020 due to the short-term nature of these instruments. The carrying amount of notes payable approximated fair value due to variable interest rates at customary terms and rates the Company could obtain in current financing. The carrying value of lease liabilities approximate fair value due to the implicit rate in the leases in relation to the Company's borrowing rate and the duration of the leases.

Derivative Liabilities

U.S. GAAP requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and their measurement at fair value. In assessing the convertible debt instruments, management determines if the conversion feature requires bifurcation from the host instrument and recording of the bifurcated derivative instrument at fair value.

Once derivative liabilities are determined, they are adjusted to reflect fair value at the end of each reporting period. Any increase or decrease in the fair value is recorded in results of operations as an adjustment to fair value of derivatives. The fair value of these derivative instruments is determined using the Monte Carlo Simulation Model.

Revenue Recognition

The Company recognizes pharmacy revenue from dispensing prescription drugs at the time the drugs are physically delivered to a customer or when a customer picks up their prescription or purchases merchandise at the store, which is the point in time when control transfers to the customer. Each prescription claim is considered an arrangement with the customer and is a separate performance obligation. Payments are received directly from the customer at the point of sale, or the customers' insurance provider is billed electronically. For third party medical insurance and other claims, authorization to ensure payment is obtained from the customer's insurance provider before the medication is dispensed to the customer. Authorization is obtained for these sales electronically and a corresponding authorization number is issued by the customers' insurance provider.

The Company recognizes testing revenue when the tests are performed, and results are delivered to the customer. Each test is considered an arrangement with the customer and is a separate performance obligation. Payment is generally received in advance from the customer.

The Company records unearned revenue for prescriptions that are filled but not yet delivered at period-end. Billings for most prescription orders are with third-party payers, including Medicare, Medicaid, and insurance carriers. Customer returns are nominal. Pharmacy revenues exceeded 83% of total revenue for the three and nine months ended September 30, 2021, and 2020.

The Company accrues an estimate of fees, including direct and indirect remuneration fees ("DIR fees"), which are assessed or expected to be assessed by payers at some point after adjudication of a claim, as a reduction of revenue at the time revenue is recognized. Changes in the estimate of such fees are recorded as an adjustment to revenue when the change becomes known.

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The following table disaggregates net revenue by categories for the nine months ended September 30, 2021, and 2020

| | 2021 | 2020 |
|------------------------|----------------------|----------------------|
| Prescription revenue | \$ 24,929,722 | \$ 28,235,462 |
| 340B contract revenue | 2,120,701 | 1,958,077 |
| Testing revenue | 2,926,452 | - |
| Rent and other revenue | 1,575 | 13,076 |
| Subtotal | 29,978,450 | 30,206,615 |
| PBM fees | (976,127) | (1,430,993) |
| Sales returns | (3,201) | (4,662) |
| Revenues, net | \$ 28,999,122 | \$ 28,770,960 |

Cost of Revenue

Cost of pharmacy revenue is derived based upon vendor purchases relating to prescriptions sold and point-of-sale scanning information for non-prescription sales and is adjusted based on periodic inventories. All other costs related to revenues are expensed as incurred.

DIR Fees

The Company reports Direct and Indirect Remuneration (“DIR”) fees as a reduction of revenue on the accompanying unaudited condensed consolidated statement of operations. DIR Fees are fees charged by Pharmacy Benefit Managers (“PBMs”) to pharmacies for network participation as well as periodic reimbursement reconciliations. For some PBMs, DIR fees are charged at the time of the settlement of a pharmacy claim. Other PBMs do not determine DIR fees at the claim settlement date, and therefore DIR fees are collected from pharmacies after claim settlement, often as clawbacks of reimbursements based on factors that vary from plan to plan. For example, two PBMs calculate DIR fees on a trimester basis and charge the Company for these fees as reductions of reimbursements paid to the Company 2-3 months after the end of the trimester (e.g., DIR fees for January – April 2021 claims were charged by these PBMs in July – August 2021). For DIR fees that are not collected at the time of claim settlement, the Company records an accrued liability at each reporting date for estimated DIR fees that are expected to be collected by the PBMs in a future period. The estimated liability for these fees is highly subjective and the actual amount collected may differ from the accrued liability. The uncertainty of management’s estimates is due to inadequate disclosure to the Company by the PBMs as to exactly how these fees are calculated either at the time the DIR fees are actually assessed and reported to the Company. The detail level of the disclosure of assessed DIR fees varies based on the information provided by the PBM.

Vendor Concentrations

For the nine months ended September 30, 2021, the Company had a significant vendor concentration with one vendor. The purchases from this significant vendor were 95% of total vendor purchases for the nine months ended September 30, 2021.

Selling, General and Administrative Expenses

Selling expenses primarily consist of store salaries, contract labor, occupancy costs, and expenses directly related to the stores. General and administrative costs include advertising, insurance, professional fees, and depreciation and amortization.

Advertising

Costs incurred for producing and communicating advertising for the Company are charged to operations as incurred. Advertising expense was \$145,973 and \$138,666 for the nine months ended September 30, 2021, and 2020, respectively.

Share-Based Payment Arrangements

Generally, all forms of share-based payments, including warrants, are measured at their fair value on the awards’ grant date typically

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using a Black-Scholes pricing model, based on the estimated number of awards that are ultimately expected to vest. The costs associated with share-based compensation awards to employees and non-employee directors are measured at the grant date based on the calculated fair value of the award and recognized as an expense ratably over the recipient's requisite service period during which that award vests or becomes unrestricted. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The expense resulting from share-based payments is recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Progressive Care Inc., RXMD Therapeutics and PharmCoRx 1103 are taxed as C corporations. PharmCo 901 and PharmCo 1002 are taxed as partnerships, wherein each member is responsible for the tax liability, if any, related to its proportionate share of PharmCo 901 and PharmCo 1002's taxable income. Progressive Care Inc. has a 100% ownership interest in PharmCo 901 and PharmCo 1002; therefore, all of PharmCo 901 and PharmCo 1002's taxable income attributable to the period of ownership is included in Progressive Care Inc.'s taxable income.

The provision for income taxes for the three and nine months ended September 30, 2021, and 2020 on the unaudited condensed consolidated statements of operations represents the minimum state corporate tax payments. There was no current tax provision for the three and nine months ended September 30, 2021, and 2020, because the Company did not have taxable income during those periods. Total available net operating losses to be carried forward to future taxable years was approximately \$11 million as of September 30, 2021, \$6 million of which will expire in various years through 2038. The temporary differences giving rise to deferred income taxes principally relate to accelerated depreciation on property and equipment and amortization of goodwill recorded for tax purposes, reserves for estimated doubtful accounts and inventory obsolescence and net operating losses recorded for financial reporting purposes. The Company's net deferred tax asset on September 30, 2021 and December 31, 2020 was fully offset by a 100% valuation allowance as it was not more likely than not that the tax benefits of the net deferred tax asset would be realized. The change in the valuation allowance was approximately \$32,000 for the nine months ended September 30, 2021.

The Company accounts for uncertainty in income taxes by recognizing a tax position in the unaudited condensed consolidated financial statements only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the unaudited consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company records interest and penalties related to tax uncertainties, if any, as income tax expense. Based on management's evaluation, the Company does not believe it has any uncertain tax positions during the nine months ended September 30, 2021, and 2020.

Income (Loss) per Share

Basic income (loss) per share ("EPS") is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock warrants, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock warrants), and convertible debt, using the if converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

Paycheck Protection Program Loan

The Company records Paycheck Protection Program ("PPP") loan proceeds in accordance with Accounting Standards Codification ("ASC") 470, Debt. The Company treats the PPP loan as indebtedness, which is extinguished and recorded as a gain on debt extinguishment when legally released by the primary obligor.

Accounting Standards Issued but Not Yet Adopted

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Income Taxes

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740)—simplifying the Accounting for Income Taxes, which removes certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. ASU 2019-12 is required to be adopted for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company’s consolidated financial statements.

Debt

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, which among other things, simplifies the accounting models for the allocation of proceeds attributable to the issuance of a convertible debt instrument. As a result, after adopting the ASU’s guidance, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (i) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (ii) a convertible debt instrument was issued at a substantial premium. The standard becomes effective for the Company in the first quarter of 2022 and early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company’s consolidated financial statements.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on the Company’s consolidated financial statements.

Note 4. Accounts Receivable – Trade, net

Accounts receivable consisted of the following on September 30, 2021, and December 31, 2020:

| | September 30, 2021 | December 31, 2020 |
|---------------------------------------|-------------------------------|------------------------------|
| Gross accounts receivable - trade | \$ 2,818,488 | \$ 2,686,009 |
| Less: Allowance for doubtful accounts | (151,200) | (105,500) |
| Accounts receivable – trade, net | \$ 2,667,288 | \$ 2,580,509 |

For the nine months ended September 30, 2021 and 2020, the Company recognized bad debt expense in the amount of \$152,953 and \$192,485, respectively.

Note 5. Property and Equipment, net

Property and equipment, net consisted of the following on September 30, 2021, and December 31, 2020:

| | September 30, 2021 | December 31, 2020 |
|-------------------------------------|-------------------------------|------------------------------|
| Building | \$ 1,651,069 | \$ 1,651,069 |
| Building improvements | 507,238 | 437,733 |
| Land | 184,000 | 184,000 |
| Leasehold improvements and fixtures | 276,614 | 385,902 |
| Furniture and equipment | 330,291 | 330,291 |
| Computer equipment and software | 101,230 | 101,230 |
| Vehicles | 94,431 | 108,011 |
| Website | 67,933 | 67,933 |

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| | | |
|---|---------------------|---------------------|
| Total | 3,212,806 | 3,266,169 |
| Less: accumulated depreciation and amortization | <u>(745,475)</u> | <u>(872,198)</u> |
| | 2,467,331 | 2,393,971 |
| Construction in progress | - | 108,362 |
| Software not in service | 76,424 | 30,100 |
| Property and equipment, net | \$ 2,543,755 | \$ 2,532,433 |

Depreciation and amortization expense for the nine months ended September 30, 2021, and 2020 was \$135,949 and \$168,028, respectively.

Note 6. Intangible Assets

| Intangible assets consisted of the following: | September 30, 2021 | December 31, 2020 |
|---|-----------------------|----------------------|
| Trade names | \$ 362,000 | \$ 362,000 |
| Pharmacy records | 263,000 | 263,000 |
| Non-compete agreements | 166,000 | 166,000 |
| Subtotal | 791,000 | 791,000 |
| Less accumulated amortization | (707,093) | (543,858) |
| Net intangible assets | \$ 83,907 | \$ 247,142 |

Amortization of intangible assets amounted to \$163,235 and \$256,650 for the nine months ended September 30, 2021, and 2020, respectively. The following table represents the total estimated amortization of intangible assets for the five succeeding years:

| Year | Amount |
|---------------------|------------------|
| 2021 (three months) | \$ 7,898 |
| 2022 | 31,452 |
| 2023 | 31,452 |
| 2024 | 13,105 |
| Total | \$ 83,907 |

Note 7. Accounts Payable and Accrued Liabilities

| Accounts payable and accrued liabilities consisted of the following: | September 30, 2021 | December 31, 2020 |
|--|-----------------------|----------------------|
| Accounts payable - trade | \$ 5,005,536 | \$ 5,157,472 |
| Accrued payroll and payroll taxes | 199,000 | 114,851 |
| Accrued interest payable | 773,091 | 574,512 |
| Accrued DIR fees | 635,537 | 477,053 |
| Other accrued liabilities | 407,969 | 227,342 |
| Totals | \$ 7,021,133 | \$ 6,551,230 |

Note 8. Notes Payable

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Notes payable consisted of the following:

| | September 30, 2021 | December 31, 2020 |
|---|-----------------------|----------------------|
| A. Convertible notes payable - collateralized | \$ 1,559,700 | \$ 2,878,619 |
| B. Mortgage note payable – commercial bank - collateralized | 1,327,782 | 1,376,826 |
| C. Note payable – uncollateralized | 25,000 | 25,000 |
| D. Note payable - collateralized | 56,579 | 59,094 |
| E. U.S. CARES Act PPP Loans - uncollateralized | - | 421,400 |
| Insurance premium financing | 105,071 | 31,148 |
| Subtotal | 3,074,132 | 4,792,087 |
| Less Unamortized debt discount | (388,978) | (953,846) |
| Less Unamortized debt issuance costs | (1,419) | (3,909) |
| Less Unamortized investment length premium | (107,194) | (132,796) |
| Total | 2,576,541 | 3,701,536 |
| Less: Current portion of notes payable | (1,792,386) | (570,914) |
| Long-term portion of notes payable | \$ 784,155 | \$ 3,130,622 |

The corresponding notes payable above are more fully discussed below:

(A) Convertible Notes Payable – collateralized

Chicago Ventures Partners, L.P.

On January 2, 2019, Progressive entered a Securities Purchase Agreement (the “Purchase Agreement”) with Chicago Venture Partners, L.P. (“Chicago Venture”), a Utah limited partnership, in the amount of \$2,710,000, which included a \$200,000 Original Issue Discount (“OID”) and \$10,000 in debt issuance costs for the transaction. The note balance was satisfied through a series of redemption notices for conversion of note principal and accrued interest into shares of Progressive common stock at various conversion rates. The last redemption request and conversion of note principal and accrued interest was completed on November 3, 2020.

The Company has identified conversion features embedded within the Chicago Venture note. The Company has determined that the conversion features represent an embedded derivative. Accordingly, the embedded conversion feature was bifurcated from the debt host and accounted for as a derivative liability. On January 2, 2019, the Company recorded a derivative liability on the note in the amount of \$571,000. The fair value of the embedded derivative liability was determined using the Monte Carlo Simulation model on the issuance date. For the nine months ended September 30, 2021, and 2020, the Company recorded a Change in Fair Value of the Derivative Liability in the amount of \$0 and \$586,000, respectively, which was recorded as other income or expenses on the accompanying unaudited condensed consolidated statements of operations.

Debt Issuance Costs and Debt Discount:

Debt Issuance Costs consist of fees incurred through securing financing from Chicago Venture on January 2, 2019. Debt Discount consists of the discount recorded upon recognition of the derivative liability upon issuance of the first tranche. Debt issuance costs and debt discount are amortized to interest expense over the term of the related debt using the effective interest method. Total amortization expense for the nine months ended September 30, 2021, and 2020 was \$0 and \$168,404, respectively.

Iliad Research and Trading, L.P.

On March 6, 2019, Progressive entered a Securities Purchase Agreement (the “Purchase Agreement”) with Iliad Research and Trading, L.P. (“Iliad Research”), a Utah limited partnership, in the amount of \$3,310,000, which included a \$300,000 Original Issue Discount (“OID”) and \$10,000 in debt issuance costs for the transaction. The note is comprised of two tranches consisting of an initial tranche in

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the amount of \$2,425,000 and a second tranche in the amount of \$885,000. The initial tranche consisted of the initial cash purchase price of \$2,425,000, \$115,000 of the OID and the debt issuance costs of \$10,000. The remaining OID of \$185,000 has been allocated to the second tranche. The note is convertible into shares of common stock (\$0.0001 par value per share) in 1 year at the average of the two lowest closing trading prices during the twenty trading days immediately preceding the applicable conversion. The note matures on March 6, 2022 (the "Maturity Date"). The note accrues interest at the rate of 10% per annum and the entire unpaid principal balance plus all accrued and unpaid interest are due on the Maturity Date.

Progressive received the initial tranche of \$2,425,000 at the closing of the transaction, which included \$115,000 of OID and legal costs. Progressive granted the Investor a security interest in all right, title, interest and claims of Progressive. PharmCo 901 has agreed to guarantee Progressive's obligations under the Purchase Agreement, the note and the Security Agreement by entering into a Guaranty Agreement in favor of Iliad Research. Pursuant to the Guaranty Agreement, Progressive has agreed to pay to PharmCo 901 10% of all proceeds it received from Iliad Research, as consideration to secure Progressive's obligations. Progressive used the net proceeds as part of the total purchase price of the acquisition of 100% of the FPRX ownership interests.

The first tranche of \$2,425,000 less the OID and debt issuance costs was disbursed and held in escrow by Iliad Research on March 6, 2019. \$1 million of the escrow deposit was disbursed to the owners of FPRX at the purchase closing date, June 1, 2019. The second tranche of \$885,000 less the OID was disbursed to Progressive on June 4, 2019, and was used to complete the total purchase price of the FPRX acquisition. On November 8, 2019, the Company entered into an amendment of the FPRX Purchase Agreement, which in part included a reduction of the purchase price. As a result of the amended Purchase Agreement, the Company returned \$400,000 of the second tranche to Iliad Research and Trading, L.P. on November 12, 2019.

An investment length premium in the amount of \$168,619 was applied to the outstanding balance of the Iliad Research note in September 2020, and another investment length premium in the amount of \$136,486 was applied to the outstanding balance in March 2021. The investment length premium was calculated at a 5% premium on the outstanding note balance when the note was still outstanding at (a) eighteen months from the effective date, (b) twenty-four months from the effective date, and (c) thirty months from the effective date.

The Iliad Research promissory note includes a provision that limits the volume of sales of common stock shares received by Iliad from note conversions ("Conversion Shares"). Iliad Research agreed that, with respect to the sale of Conversion Shares, in any given calendar week its net sales of Conversion Shares shall not exceed the greater of (i) ten percent (10%) of Progressive's Common Stock dollar trading volume (the "Trading Volume") in such week (which, for purposes hereof, means the number of shares traded during such calendar week multiplied by the volume weighted average price per share for such week), and (ii) \$100,000.00 (the "Volume Limitation"); provided; however, that if Lender's Net Sales are less than the Volume Limitation for any given week, then in the following week (or two (2) weeks in the case of any week where the Closing Trade Price on any given day during that week is 25% greater than the previous week's VWAP) Lender shall be allowed to sell an additional amount of Conversion Shares equal to the difference between the amount Lender was allowed to sell and the amount Lender actually sold.

In the event Iliad Research breaches the Volume Limitation where its Net Sales of Conversion Shares during any calendar week exceed the dollar volume it is permitted to sell during such week pursuant to the Volume Limitation (such excess, the "Excess Sales"), then in such event Progressive shall be entitled to reduce the Outstanding Balance of the Iliad Research note by an amount equal to such Excess Sales upon delivery of written notice to Iliad Research setting forth its basis for such reduction (the "Outstanding Balance Reduction").

The volume of Conversion Shares sales exceeded the Volume Limitation in June 2021, which resulted in Excess Sales of \$213,425 and a corresponding Outstanding Balance Reduction in the Iliad Research note carrying value of \$213,425 as of September 30, 2021. The Company reported the Outstanding Balance Reduction as a Gain on Debt Extinguishment in the amount of \$213,425 on the Company's unaudited condensed consolidated statements of operations for the nine months ended September 30, 2021.

The balance outstanding on the Iliad Research note payable was \$1,559,700 and \$2,878,619 at September 30, 2021 and December 31, 2020, respectively. Accrued interest on the note payable at September 30, 2021 and December 31, 2020 was \$773,190 and \$574,512, respectively, and such amounts are included in accounts payable and accrued liabilities in the accompanying unaudited condensed consolidated balance sheets.

The Company has identified conversion features embedded within the Iliad Research note. The Company has determined that the conversion features represent an embedded derivative. Accordingly, the embedded conversion feature was bifurcated from the debt host and accounted for as a derivative liability. On March 6, 2019, the Company recorded a derivative liability on the first tranche in the amount of \$1,351,000. On June 4, 2019, the Company recorded a derivative liability on the second tranche in the amount of \$614,000. For the nine months ended September 30, 2021, and 2020, the Company recorded a Change in Fair Value of the Derivative Liability in

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the amount of \$913,640 and \$295,000, respectively. The derivative liability balance on the Iliad Research note at September 30, 2021 and December 31, 2020 was \$ 1,129,360 and \$2,043,000, respectively.

At inception, the fair value of the derivative instrument has been recorded as a liability on the unaudited condensed consolidated balance sheets with the corresponding amount recorded as a discount to the note. The discount was accreted from the issuance date to September 30, 2021, with a corresponding charge to interest expense. The change in the fair value of the derivative liability was recorded in other income or expenses on the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2021 and 2020, with the offset to the derivative liability on the unaudited condensed consolidated balance sheets. The fair value of the embedded derivative liability was determined using the Monte Carlo Simulation model on the issuance and subsequent balance sheet dates.

Debt Issuance Costs, Debt Discount and Investment Length Premium:

Debt Issuance Costs consist of fees incurred through securing financing from Iliad Research on March 6, 2019. Debt Discount consists of the discount recorded upon recognition of the derivative liability at the issuance of the first and second tranches. Investment length premium is calculated at a 5% premium on the outstanding balance when the note is still outstanding at (a) eighteen months from the effective date, (b) twenty-four months from the effective date, and (c) thirty months from the effective date.

Debt issuance costs, debt discount and investment length premium are amortized to interest expense over the term of the related debt using the effective interest method. Total amortization expense for the nine months ended September 30, 2021 and 2020 was \$729,280 and \$569,269, respectively.

(B) Mortgage Note Payable – collateralized

In 2018, PharmCo 901 closed on the purchase of land and building located at 400 Ansin Boulevard, Hallandale Beach, Florida. The purchase price was financed in part through a mortgage note and security agreement entered into with a commercial lender in the amount of \$1,530,000. The promissory note is collateralized by the land and building, bears interest at a fixed rate of 4.75% per annum, matures on December 14, 2028, and is subject to a prepayment penalty. Principal and interest will be repaid through 119 regular payments of \$11,901 that began in January 2019, with the final payment of all principal and accrued interest not yet paid on December 14, 2028. Note repayment is guaranteed by Progressive Care Inc. The balance outstanding on the mortgage payable was \$1,327,782 and \$1,376,826 at September 30, 2021 and December 31, 2020, respectively.

(C) Note Payable – Uncollateralized

As of September 30, 2021 and December 31, 2020, the uncollateralized note payable represents a non-interest-bearing loan that is due on demand from an investor.

(D) Note Payable – Collateralized

In September 2019, the Company entered into a note obligation with a commercial lender, the proceeds from which were used to pay off a capital lease obligation on pharmacy equipment in the amount of \$85,429. The terms of the promissory note payable require 48 monthly payments of \$2,015, including interest at 6.5%. The balance outstanding on the note payable was \$43,488 and \$59,094 at September 30, 2021 and December 31, 2020, respectively. The promissory note is secured by equipment with a net book value of \$40,601 and \$55,217 at September 30, 2021 and December 31, 2020, respectively.

In April 2021, the Company entered into a note obligation with a commercial lender, the proceeds from which were used to purchase pharmacy equipment in the amount of \$29,657. During September 2021, pharmacy equipment was returned since the installation was cancelled and the note was amended. The amended promissory note payable requires 46 monthly payments of \$331, including interest at 6.9%. The balance outstanding at September 30, 2021 on the note payable was \$13,091. The remaining equipment was written off during September 2021.

(E) U.S. CARES Act PPP Loans – Uncollateralized

The Paycheck Protection Program (“PPP”), established as part of the Coronavirus Aid, Relief and Economic Security Act (“U.S. 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 or twenty-four-weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, mortgage interest payments, employee benefits, rent and utilities, and maintains its

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payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week or twenty-four week periods. The unforgiven portion of the PPP loans are payable over two or five years at an interest rate of 1%, with a deferral of payments for the first nine months. Thereafter, any unforgiven principal and interest are payable in 18 equal monthly installments.

On various dates in April and May 2020, the Company received loan proceeds in the amount of \$1,013,900 under the PPP. During the period from March 2020 to August 2020, the Company used the entire proceeds for qualifying expenses. Therefore, the Company applied for forgiveness of the PPP loans. On November 10, 2020, the Company received notification from the lender that the U.S. Small Business Administration approved the forgiveness of the U.S. CARES Act PPP Loans for PharmCo 901 in the amount of \$511,000 and PharmCo 1002 in the amount of \$81,500. The total debt forgiveness in the amount of \$592,500 was recorded as a gain on debt extinguishment in the Company's consolidated statements of operations for the year ended December 31, 2020.

The Company applied for forgiveness of the PPP loan received by PharmCo 1103 in April 2020 in the amount of \$421,400 and on January 7, 2021, received notification from the lender that the U.S. Small Business Administration approved the forgiveness of the U.S. CARES Act PPP Loan for PharmCo 1103. On December 27, 2020, a supplemental appropriations bill was signed into law that provided additional COVID-19 relief in the form of added PPP funds for businesses and organizations needing either a first loan or a second round of funding. We applied for an additional PPP loan in the amount of \$421,400 under the new law for PharmCo 1103. The loan was approved, and we received the funds on February 16, 2021. The funds were used for eligible purposes, including payroll, mortgage interest payments, employee benefits, rent and utilities, and to maintain payroll levels. The Company applied for forgiveness of the additional PPP loan received by PharmCo 1103 in February 2021 in the amount of \$421,400 and on August 2, 2021, received notification from the lender that the U.S. Small Business Administration approved the forgiveness of the U.S. CARES Act PPP Loan for PharmCo 1103. The total debt forgiveness in the amount of \$842,800 is recorded as a Gain on Debt Extinguishment in the Company's unaudited condensed consolidated statements of operations during the nine months ended September 30, 2021.

Future maturities of notes payable are as follows:

| Year | Amount |
|---------------------|---------------------|
| 2021 (three months) | \$ 88,267 |
| 2022 | 1,735,090 |
| 2023 | 104,836 |
| 2024 | 93,408 |
| 2025 | 96,228 |
| Thereafter | 956,303 |
| Total | <u>\$ 3,074,132</u> |

Interest expense on these notes payable was \$250,333 and \$339,958 for the nine months ended September 30, 2021 and 2020, respectively.

Note 9. Lease Obligations

The Company has entered into a number of lease arrangements under which we are the lessee. Three of our leases are classified as finance leases and three of our leases are classified as operating leases. In addition, we have elected the short-term lease practical expedient in ASC Topic 842 related to real estate leases with terms of one year or less and short-term leases of equipment used in our pharmacy locations. The following is a summary of our lease arrangements.

Finance Leases

In May 2018, the Company entered into a finance lease obligation to purchase pharmacy equipment with a cost of \$114,897. The terms of the lease agreement require monthly payments of \$1,678 plus applicable tax over 84 months ending March 2025 including interest at the rate of 6%. The finance lease obligation is secured by equipment with a net book value of \$58,809 as of September 30, 2021.

The Company assumed an equipment finance lease obligation for medication dispensing equipment from the acquisition of PharmCo 1002 in July 2018. The lease expires in March 2022 and required monthly installments of \$2,855 including interest at the rate of 2.36%. The finance lease obligation was secured by equipment with a net book value of \$0 as of September 30, 2021.

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In December 2020, the Company entered into an interest-free finance lease obligation to purchase computer servers with a cost of \$50,793. The terms of the lease agreement require monthly payments of \$1,411 plus applicable tax over 36 months ending November 2023. The finance lease obligation is secured by equipment with a net book value of \$36,684 as of September 30, 2021.

Operating Leases

The Company entered into a lease agreement for its Orlando pharmacy on August 1, 2020 (the lease commencement date). The term of the lease is 66 months with a termination date of February 1, 2026. The lease agreement calls for monthly payments that began on February 1, 2021, of \$4,310, with an escalating payment schedule each year thereafter.

The Company leases its North Miami Beach pharmacy locations under an operating lease agreement with a lease commencement date on September 1, 2021. The term of the lease is 60 months with a termination date of August 31, 2026. The lease calls for monthly payments of \$5,327, with an escalating payment schedule each year thereafter.

The Company also leases its Palm Beach County pharmacy locations under operating lease agreements expiring in March 2024.

The Company recognized lease costs associated with all leases as follows:

| | For the Nine Months Ended September 30, | |
|--|--|-------------------|
| | 2021 | 2020 |
| Operating lease cost: | | |
| Fixed rent expense | \$ 324,174 | \$ 337,894 |
| Finance lease cost: | | |
| Amortization of right of use assets (included in depreciation expense) | 25,008 | 62,168 |
| Interest expense | 5,550 | 7,575 |
| Total Lease Costs | \$ 354,732 | \$ 407,637 |

Supplemental cash flow information related to leases was as follows:

| | For the Nine Months Ended September 30, | |
|--|--|-------------------|
| | 2021 | 2020 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 141,353 | \$ 182,600 |
| Financing cash flows from finance leases | 47,780 | 18,100 |
| Total cash paid for lease liabilities | \$ 189,133 | \$ 200,700 |

Supplemental balance sheet information related to leases was as follows:

| | September 30, 2021 | December 31, 2020 |
|--|-------------------------------|------------------------------|
| Operating leases: | | |
| Operating lease right-of-use assets, net | \$ 628,008 | \$ 315,868 |

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| | | |
|--|---------|---------|
| Operating lease liabilities: | | |
| Current portion | 149,850 | 112,210 |
| Long-term portion | 504,786 | 228,772 |
| Finance leases: | | |
| Finance lease right-of-use assets, net | 99,596 | 120,500 |
| Finance lease liabilities: | | |
| Current portion | 67,284 | 85,765 |
| Long-term portion | 64,878 | 91,791 |

Maturities of lease liabilities were as follows:

| Year Ending December 31,: | Finance Lease | Operating Lease | Total Future Lease Commitments |
|--|------------------|-------------------|--------------------------------|
| 2021 (three months) | \$ 40,437 | \$ 33,548 | \$ 73,985 |
| 2022 | 37,073 | 175,710 | 212,783 |
| 2023 | 35,662 | 181,787 | 217,449 |
| 2024 | 20,142 | 144,583 | 164,725 |
| 2025 | 5,035 | 134,933 | 139,968 |
| Thereafter | - | 53,459 | 53,459 |
| Total lease payments to be paid | 138,349 | 724,020 | 862,369 |
| Less: Future interest expense | (6,187) | (69,384) | (75,571) |
| Lease liabilities | 132,162 | 654,636 | 786,798 |
| Less: current maturities | (67,284) | (149,850) | (217,134) |
| Long-term portion of lease liabilities | \$ <u>64,878</u> | \$ <u>504,786</u> | \$ <u>569,664</u> |

Note 10. Stockholders' Equity (Deficiency)

Preferred Stock

The Series A preferred stock is a non-dividend producing instrument that ranks superior to the Company's common stock. Each one (1) share of the Series A Preferred Stock shall have voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock and Preferred Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator.

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With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series A Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Certificate of Incorporation or By-laws.

On July 11, 2014, the board of directors approved the issuance of 51 shares of the Company's Series A Preferred Stock to a certain employee of the Company, which is equal to 50.99% of the total voting power of all issued and outstanding voting capital of the Company in satisfaction of \$20,000 in past due debt. These issued shares of preferred stock are outstanding as of September 30, 2021, and December 31, 2020. On January 7, 2021, the preferred shares were transferred to a trust whose beneficiary is related to the employee.

Note 11. Commitments and Contingencies

Legal Matters

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In the opinion of management, the disposition or ultimate resolution of currently known claims and lawsuits will not have a material adverse effect on the Company's condensed consolidated financial position, results of operations or liquidity.

Note 12. Related Party Transactions

During the nine months ended September 30, 2021, and 2020, the Company had a consulting arrangement with Spark Financial Consulting ("Spark"), which is a consulting company owned by an employee and beneficial shareholder of the Company. Spark provides business development services including but not limited to recruiting, targeting and evaluation of potential mergers and acquisitions, finding third party contractors and assisting with related negotiations in exchange for a monthly fee of \$16,000 in 2021 and 2020. Additionally, Spark may be entitled to additional fees for additional consulting services. During the nine months ended September 30, 2021, and 2020, the Company paid Spark \$96,000 and \$176,400, respectively. The agreement was terminated during the third quarter of 2021.

The Company has an employment agreement (the "Agreement") with a certain pharmacist, Head of the Compounding Department, who is the first paternal cousin to the beneficial shareholder and employee of the Company. In consideration for duties performed including but not limited to marketing, patient consultation, formulary development, patient and physician education, training, recruitment, sales management, as well as pharmacist responsibilities, the Company agreed to provide monthly compensation of \$15,000 or \$10,000 per month plus 5% commission on monthly gross profits generated by the Compounding Department, whichever is greater. During the nine months ended September 30, 2021, and 2020, payments to the pharmacist were \$63,495 and \$106,550, respectively. The agreement was terminated during the third quarter of 2021.

Note 13. Retirement Plan

The Company sponsors a 401(k) retirement plan ("the Plan") covering qualified employees of PharmCo 901, PharmCo 1002 and FPRX, as defined. Employees who have been employed more than one year are eligible to participate in the Plan. Through March 31, 2021, the Company matched the employee's contribution up to a maximum of 3% of the eligible employee's compensation. The Company contributed approximately \$2,200 and \$15,800 in matching contributions for the nine months ended September 30, 2021, and 2020, respectively.

Note 14. Subsequent Events

On October 12, 2021, Iliad Research made a partial redemption request on its note agreement with Progressive Care. The redemption request resulted in a conversion of \$200,000 of note principal into 7,558,579 shares of Progressive Care common stock.

Item 4. Management’s Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the attached audited consolidated financial statements and notes thereto. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. Where possible, we have tried to identify these forward-looking statements by using words such as “anticipate,” “believe,” “intends” or similar expressions. Our actual results may differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under “Risk Related to our Business” beginning on page 16 in our 2020 Annual Report.

OVERVIEW

Progressive Care Inc. was incorporated under the laws of the state of Delaware on October 31, 2006 under the name Progressive Training, Inc. We changed our name to Progressive Care Inc. in connection with a merger with Progressive Care Inc. on November 23, 2010. Progressive, through its wholly-owned subsidiaries, PharmCo, LLC (referred to as “PharmCo 901”), Touchpoint RX, LLC doing business as PharmCo Rx 1002, LLC (referred to as “PharmCo 1002”), Family Physicians RX, Inc. doing business as PharmCoRx 1103 and PharmCoRx 1204 (referred to as “FPRX” historically or “PharmCo 1103” and “PharmCo 1204 “currently) (pharmacy subsidiaries collectively referred to as “PharmCo”), ClearMetrX Inc and RXMD Therapeutics, Inc (collectively with all entities referred to as the “Company”, or “we”) is a personalized healthcare services and technology company which provides prescription pharmaceuticals and risk and data management services to healthcare organizations and providers.

We provide Third Party Administration (“TPA”), data management, COVID-19 related diagnostics and vaccinations, prescription pharmaceuticals, compounded medications, tele-pharmacy services, anti-retroviral medications, medication therapy management, the supply of prescription medications to long term care facilities, medication adherence packaging, contracted pharmacy services for 340B Covered Entities under the 340B Drug Discount Pricing Program, and health practice risk management. We are focused on improving lives of patients with complex chronic diseases through our partnerships with patients, payors, pharmaceutical manufacturers and distributors, and physicians. We offer a broad range of innovative solutions to address the dispensing, delivery, dosing, and reimbursement of clinically intensive, high-cost drugs.

In 2020 and 2019, per EQuIPP® (“Electronic Quality Improvement Platform for Plans and Pharmacies”), a performance information management tool that provides standardized, benchmarked data to help shape strategies and guide medication-related performance improvement, our performance score was five star with a relative ranking in the top 20% of all pharmacies.

PharmCo provides contracted pharmacy services for 340B Covered Entities under the 340B Drug Discount Pricing Program. Under the terms of these agreements, we act as a pass through for reimbursements on prescription claims adjudicated on behalf of the 340B Covered Entities in exchange for a dispensing fee per prescription. These fees vary by the covered entity and the level of service provided by us.

Our revenue is derived from customized care management programs we deliver to our patients, including the dispensing of their medications. We also provide patient health risk reviews and free same-day delivery.

Our focus is on complex chronic diseases that generally require multiyear or lifelong therapy, which drives recurring revenue and sustainable growth. Our pharmacy services revenue growth is from our expanding breadth of services, new drugs coming to market, new indications for existing drugs, volume growth with current clients, and addition of new customers due to our focus on higher patient engagement, benefit of free delivery to the patient, and clinical expertise. We also expect expanded revenue growth through the signing of new contract pharmacy service and data management contracts with 340B Covered Entities and expansion of data management and analytics services to healthcare organizations.

We formed ClearMetrX in June 2020, the Company’s first wholly-owned data management company with services designed to support health care organizations across the country. We believe Artificial Intelligence (“AI”) will improve preventive healthcare by helping physicians make informed decisions in the medication therapy management process. Through ClearMetrX, third party administrative and data management fees for the nine months ended September 30, 2021, and 2020, was approximately \$0.7 million and \$0.4 million, respectively. These fees have gross margins significantly greater than those generated from our pharmacy operations. ClearMetrX focuses on providing insights and technological development. The Company has transitioned data service customers from the pharmacies to the ClearMetrX platform to better scale the products and improve the capabilities of existing analytics options.

According to data provided to Drug Channels by HRSA, discounted 340B purchases were at least \$29.9 billion in 2019 with a compound average growth rate of 27.1% from 2014 through 2019. ClearMetrX includes data management and TPA services for 340B

Covered Entities, pharmacy analytics, and programs to manage HEDIS Quality Measures including Medication Adherence. These offerings cater to the glaring need for frontline providers to understand best practices, patient behaviors, care management processes, and the financial mechanisms behind these decisions. We provide data access, and also deliver actionable insights that providers and support organizations can use to improve their practice and patient care. The company TPA services include management of wholesale accounts and contract pharmacies, patient eligibility with regard to the 340B drug program, development and review of 340B policies and procedures, and management of receivables.

We have isolated and prioritized key marketing methods which have yielded the lowest cost of customer acquisition and the most opportunity for growth. Social media, website maintenance, and thought leadership are being optimized to promote brand awareness and recognition, which increases the likelihood of securing physician referrals and customer loyalty. As a result, net pharmacy revenue for the three months ended September 30, 2021 and 2020 was approximately \$9.8 million and \$10.5 million, respectively, which included revenue from COVID-19 testing of approximately \$1.3 million in 2021. We have filled approximately 106,000 and 138,000 prescriptions during the three months ended September 30, 2021 and 2020, respectively, a 23% year over year decrease in the number of prescriptions filled. Net pharmacy revenue for the nine months ended September 30, 2021, and 2020 was approximately \$29.0 million and \$28.8 million, respectively, which included revenue from COVID-19 testing of approximately \$2.9 million in 2021. We have filled approximately 329,000 and 396,000 prescriptions during the first nine months of 2021 and 2020, respectively, a 17% year over year decrease in the number of prescriptions filled. The decrease in prescriptions filled and pharmacy revenues are due to several factors as follows:

- (a) The COVID-19 pandemic had a significant impact on our workforce, as it caused a large number of employee absences due to employees contracting the virus or out of work to care for sick family members. Furthermore, a number of our employees had issues with childcare/remote schooling that prevented them from working full time hours;
- (b) We experienced challenges in the labor market as it relates to hiring new employees due to fewer workers seeking employment since unemployment benefits were extended and increased, which resulted in an overall smaller selection of properly qualified workers. We have experienced competition for qualified workers from our larger competitors that provide similar services and offered higher hourly compensation and sign-on bonuses; and,
- (c) We have implemented new pharmacy software at our PharmCo 901 location during February 2021, and our PharmCo 1103 location during March 2021. During the second quarter of 2021, we experienced multiple post implementation issues with the software that we did not anticipate and learned that the software did not function as originally presented to us when we made the decision to implement the software. Amongst other things 1) the software was not designed to accommodate our prescription volume and we have experienced continuous business interruptions due to system downtime which caused prescriptions not being received by us; 2) continuous system performance issues that resulted in patients filling prescriptions elsewhere; 3) lack of ability to synchronize patient prescription which led to an increase in the number of deliveries to one patient. As a result of all the performance issues we have experienced with the new software we made the decision to re-implement our previous pharmacy software during the third quarter of 2021, since the continuous lack of performance with the new software had a severe impact on our pharmacy operations and results that was not sustainable;
- d) Downtime experienced moving our PharmCo 901 operations from North Miami Beach to Hallandale Beach towards the end of 2020/beginning of 2021, and temporary closure of the North Miami Beach location during that time; and
- e) Moving of our PharmCo 1103 Orlando pharmacy to a new facility in Orlando.

It is difficult to predict whether these conditions will be recurring given recent COVID-19 pandemic conditions in Florida.

We have experienced a year over year growth in revenue from our 340B contracts with healthcare providers. Dispensing fee and third party administration revenue earned on these contracts increased over 8% for the nine months ended September 30, 2021 as compared to the same period in 2020 (\$2.1 million in 2021; \$2.0 million in 2020). For the three months ended September 30, 2021 we have experienced a decrease of 49% in dispensing fee and third party administration revenue earned on these contracts when compared to the same period in 2020 (\$0.7 million in 2021; \$1.3 million in 2020). The decrease was primarily a result of our decision to terminate a non-performing 340B contract.

Per the discussion above, the disruptions in pharmacy operations ultimately led to a downturn in customer service and negatively affected our patient retention and growth. We recognized the inefficiencies caused by the disruptions in our pharmacy operations and are actively working on improving our current processes. We have also improved our marketing efforts primarily in the Orlando area as we have greatly expanded our capacity to serve patients from our new Orlando pharmacy. We expect that our patient numbers will return to or exceed their former levels in the foreseeable future.

We continue to experience an overall reduction in the gross profit per drug prescribed predominantly in high cost brand drugs where in many cases reimbursements are at or below dispensed drug costs. Our gross profit per prescription continued to be eroded through increases in contractual rate adjustments such as generic and brand effective rates. We continue to promote the health and well-being of the community through ensuring necessary medications are received by the patient regardless of cost to us, and we are working with

physicians and patients alike to optimize medication practices to dispense drugs that do not result in losses.

Management expects that future growth will be driven by new data management and virtual healthcare service lines; expansion of 340B Covered Entities Third Party Administrative services; market penetration in existing geographies; development of enhanced healthcare B2B services; development of cash based products and services; and continued implementation of Medication Therapy Management (“MTM”) protocols.

We also expect future acquisitions, which could provide continued expansion into new market territories; diversification into direct healthcare service relationships and cash based products; concentrated efforts toward developing our compliance and adherence services provided to medical providers; and enhancement of technological opportunities that boost loyalty and customer satisfaction.

Additionally, profitability and cash flow will be positively impacted by the elimination of non-recurring expenses and diversification to revenue streams outside of the third-party insurance payer model.

In February 2021, we entered into a service agreement with EagleForce Health, LLC to integrate its proprietary telehealth platform, called “myVax”, and develop a platform for the Company’s Digital Passport for COVID-19 testing and vaccination results. The platform was launched on July 20, 2021 and is capable of managing an individual’s COVID-19 vaccine and test records. Once a PharmcoRx myVax profile has been created, patients have a secure way to store health records, including testing records, vaccination records, medications, vitals, and passport data. It is also capable of tracking vital health data from smart watches and other smart devices. The myVax Passport will serve as an easy and secure way to store and manage verifiable COVID-19 related records for traveling or work purposes. This provides a powerful tool for various processes that the Company believes will come to depend upon accurate real-time virus spread risk abatement, including merchants such as cruise lines, airlines, sports venues, high-population-density, manufacturing, packing, or shipping facilities, and institutions such as school districts, universities, court proceedings, public transportation systems, and other service providers.

COVID-19 Pandemic

Global health concerns relating to the outbreak of COVID-19 continue to have an impact on the economies of the U.S. and around the world. We believe COVID-19’s impact on our business, financial condition and operating results primarily will be driven by the geographies impacted and the severity and duration of the pandemic, as well as the pandemic’s impact on the U.S. and global economies, consumer behavior and health care utilization patterns. In addition, the outbreak has resulted in authorities implementing numerous measures to reduce the transmission of the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, and business shutdowns. These measures may not effectively combat the severity and/or duration of the COVID-19 pandemic. The ultimate extent of the impact of any epidemic, pandemic, outbreak, or other public health crisis on our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic, outbreak, or other public health crisis and actions taken to contain or prevent further spread, among others. Accordingly, we cannot predict the extent to which our business, financial condition and results of operations will be affected. We will continue to work diligently with our partners and stakeholders to continue supporting patient access to their prescribed medications to the extent safe to do so for patients, caregivers and healthcare practitioners, as well as ensuring the continuity of our supply chain. Specific COVID-19 related impacts on the Company during the nine months ended September 30, 2021, and 2020 are further described below.

During the third quarter of 2020, the Company launched an aggressive expansion of its COVID-19 testing service registered through the FDA under its Emergency Use Authorization (“EUA”) guidelines, featuring Polymerase Chain Reaction (“PCR”) and Antigen testing systems that produces rapid detection of the SARS-CoV-2 virus, and Antibody testing to detect the presence of IGG and IGM antibodies in the blood with market-leading accuracy in 15 to 45 minutes. The systems we use for Rapid Detection of the SARS-CoV-2 virus is a molecular test using a lab technique called PCR, an antigen-based testing system designed to detect proteins from the virus that causes COVID-19, and COVID-19 IgG/IgM Rapid Test Cassette authorized for the detection of antibodies to SARS-CoV-2 in human venous whole blood. The Company provides these new testing systems to patients at its North Miami Beach, Hallandale Beach, Palm Springs and Orlando locations. Our testing sites are equipped with analyzers capable of detecting positive or negative COVID-19 results within minutes. Each Site is operated by clinically trained Pharmacy staff and administering tests on and off site. The Company has established a reputation of a reliable testing partner and currently provides testing services to international travelers and international airlines, chain restaurants, US and international production and entertainment companies, and local healthcare communities. The Company has been able to build an Ecosystem that allows a patient, employer, or coordinator in-charge to chat with the company’s support team, schedule a test, pay for the test, and at the point of arrival to the site by scanning a QR code from a mobile device create a profile and access test results. Using the same Ecosystem, the companies support staff is able to manage the entire patients journey and provide automated reporting of the results to regulatory authorities, supervisors and coordinators in-charge. For the three and nine months ended September 30, 2021, we have earned approximately \$1.3 and \$2.9 million, respectively from COVID-19 testing.

During April 2021, we have received a large inventory of Moderna vaccine, which represent 2000 doses and began distribution to customers. The company is providing vaccinations at the pharmacy locations as well as administering vaccines at locations such as long-term care facilities, clinics, community centers and vaccination events carried out in partnership with various community organizations. We are also playing an imperative role in helping to educate our patients and the residents of our surrounding communities on the safety, importance, and value of vaccinations that protects against COVID-19.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the **three months** ended September 30, 2021, and 2020:

| | For the Three Months Ended September 30, | | | |
|---|--|---------------|--------------|----------|
| | 2021 | 2020 | \$ Change | % Change |
| Total revenues, net | \$ 9,797,523 | \$ 10,471,015 | \$ (673,492) | -6% |
| Total cost of revenue | 6,871,206 | 7,608,749 | (737,543) | -10% |
| Total gross profit | 2,926,317 | 2,862,266 | 64,051 | 2% |
| Operating expenses | 2,702,382 | 2,767,693 | (65,311) | -2% |
| Income from operations | 223,935 | 94,573 | 129,362 | 137% |
| Other income (loss) | 302,544 | (357,413) | 659,957 | 185% |
| Income (loss) before provision for income taxes | 526,479 | (262,840) | 789,319 | 300% |
| Benefit from income taxes | 1,920 | - | 1,920 | 100% |
| Net income (loss) | \$ 528,399 | \$ (262,840) | \$ 791,239 | 301% |

For the three months ended September 30, 2021, the Company recognized overall revenue from operations of approximately \$9.8 million, which was a \$0.7 million decrease over revenue for the same period in 2020. The decrease is mainly due to a decrease in pharmacy revenue of approximately \$1.3 million, 340B fees earned of approximately \$0.6 million, and an increase in DIR and other PBM fees of approximately \$0.1 million. This was offset by an increase in COVID-19 testing and other revenue of approximately \$1.3 million.

The decrease in pharmacy revenues is due to several factors as follows:

- (a) The COVID-19 pandemic had a significant impact on our workforce, as it caused a large number of employee absences due to employees contracting the virus or out of work to care for sick family members. Furthermore, a number of our employees had issues with childcare/remote schooling that prevented them from working full time hours;
- (b) We experienced challenges in the labor market as it relates to hiring new employees due to fewer workers seeking employment since unemployment benefits were extended and increased, which resulted in an overall smaller selection of properly qualified workers. We have experienced competition for qualified workers from our larger competitors that provide similar services and offered higher hourly compensation and sign-on bonuses; and,
- (c) We have implemented new pharmacy software at our PharmCo 901 location during February 2021, and our PharmCo 1103 location during March 2021. During the second quarter of 2021, we experienced multiple post implementation issues with the software that we did not anticipate and learned that the software did not function as originally presented to us when we made the decision to implement the software. Amongst other things 1) the software was not designed to accommodate our prescription volume and we have experienced continuous business interruptions due to system downtime which caused prescriptions not being received by us; 2) continuous system performance issues that resulted in patients filling prescriptions elsewhere; 3) lack of ability to synchronize patient prescription which led to an increase in the number of deliveries to one patient. As a result of all the performance issues we have experienced with the new software, we made the decision to re-implement our previous pharmacy software during the third quarter of 2021, since the continuous lack of performance with the new software had a severe impact on our pharmacy operations and results that was not sustainable.

It is difficult to predict whether these conditions will be recurring given recent COVID-19 pandemic conditions in Florida.

For the three months ended September 30, 2021 we experienced a decrease of 49% in dispensing fee and third party administration

revenue earned on 340B contracts when compared to the same period in 2020 (\$0.7 million in 2021; \$1.3 million in 2020). The decrease was primarily a result of our decision to terminate a non-performing 340B contract.

Gross profit margins increased from 27% in 2020 to 30% in 2021. COVID-19 testing and 340B revenue continue to be the leading contributors to profitability during the quarter. Income from operations increased by approximately \$0.1 million in 2021 as compared to 2020 mainly due to higher gross profit margins from 340B fees earned and COVID-19 testing.

The following table summarizes our results of operations for the **nine months** ended September 30, 2021 and 2020:

| | For the Nine Months Ended September 30, | | | |
|---|---|----------------|--------------|----------|
| | 2021 | 2020 | \$ Change | % Change |
| Total revenues, net | \$ 28,999,122 | \$ 28,770,960 | \$ 228,162 | 1% |
| Total cost of revenue | 21,031,826 | 22,462,377 | (1,430,551) | -6% |
| Total gross profit | 7,967,296 | 6,308,583 | 1,658,713 | 26% |
| Operating expenses | 8,572,653 | 7,540,194 | 1,032,459 | 14% |
| Loss from operations | (605,357) | (1,231,611) | 626,254 | 51% |
| Other income (loss) | 976,475 | (203,058) | 1,179,533 | 581% |
| Income (loss) before provision for income taxes | 371,118 | (1,434,669) | 1,805,787 | 126% |
| Provision for income taxes | (7,029) | (6,780) | (249) | -4% |
| Net income (loss) | \$ 364,089 | \$ (1,441,449) | \$ 1,805,538 | 125% |

For the nine months ended September 30, 2021, we recognized overall revenue from operations of approximately \$29.0 million, which was a \$0.2 million year over year increase for the same period in 2020. The increase is mainly due to an increase in 340B fees earned of approximately \$0.2 million, COVID-19 testing revenue of approximately \$2.9 million, and a decrease in DIR and other PBM fees of approximately \$0.5 million. This was offset by a decrease in pharmacy and other revenues of \$3.3 million.

The decrease in pharmacy revenues is due to several factors as follows:

- (a) The COVID-19 pandemic had a significant impact on our workforce, as it caused a large number of employee absences due to employees contracting the virus or out of work to care for sick family members. Furthermore, a number of our employees had issues with childcare/remote schooling that prevented them from working full time hours;
- (b) We experienced challenges in the labor market as it relates to hiring new employees due to fewer workers seeking employment since unemployment benefits were extended and increased, which resulted in an overall smaller selection of properly qualified workers. We have experienced competition for qualified workers from our larger competitors that provide similar services and offered higher hourly compensation and sign-on bonuses; and,
- (c) We have implemented new pharmacy software at our PharmCo 901 location during February 2021, and our PharmCo 1103 location during March 2021. During the second quarter of 2021, we experienced multiple post implementation issues with the software that we did not anticipate and learned that the software did not function as originally presented to us when we made the decision to implement the software. Amongst other things 1) the software was not designed to accommodate our prescription volume and we have experienced continuous business interruptions due to system downtime which caused prescriptions not being received by us; 2) continuous system performance issues that resulted in patients filling prescriptions elsewhere; 3) lack of ability to synchronize patient prescription which led to an increase in the number of deliveries to one patient. As a result of all the performance issues we have experienced with the new software, we made the decision to re-implement our previous pharmacy software during the third quarter of 2021, since the continuous lack of performance with the new software had a severe impact on our pharmacy operations and results that was not sustainable;
- d) Downtime experienced moving our PharmCo 901 operations from North Miami Beach to Hallandale Beach towards the end of 2020/beginning of 2021, and temporary closure of the North Miami Beach location during that time; and
- e) Moving of our PharmCo 1103 Orlando pharmacy to a new facility in Orlando.

It is difficult to predict whether these conditions will be recurring given recent COVID-19 pandemic conditions in Florida.

Total revenues for the nine months ended September 30, 2021, and 2020 included approximately \$2.1 million and \$2.0 million,

respectively, of fees earned on providing TPA services and dispensing prescription medications to patients under 340B programs managed by non-profit healthcare organizations in Florida.

Gross profit margins increased from 22% for the nine months ended September 30, 2020, to 27% for the same period in 2021. COVID-19 testing and 340B revenue continue to be the leading contributors to profitability during the nine month period.

The loss from operations decreased by approximately \$0.6 million for the nine months ended September 30, 2021, when compared to the same period in 2020 as a result of improved gross margin as discussed above.

Revenue

Our pharmacy revenues were as follows:

| | Three Months Ended September 30, | | | | | |
|------------------------|----------------------------------|--------------|---------------|--------------|----------------|----------|
| | 2021 | | 2020 | | \$ Change | % Change |
| | Dollars | % of Revenue | Dollars | % of Revenue | | |
| Prescription revenue | \$ 8,125,834 | 83 % | \$ 9,401,798 | 90 % | \$ (1,275,964) | -14 % |
| 340B contract revenue | 670,880 | 7 | 1,318,622 | 13 | \$ (647,742) | -49 |
| Testing revenue | 1,315,946 | 13 | - | - | \$ 1,315,946 | 100 |
| Rent and other revenue | 270 | 0 | 0 | - | \$ 270 | 100 |
| | 10,112,930 | 103 | 10,720,420 | 102 | \$ (607,490) | -6 |
| PBM Fees | (315,142) | -3 | (247,710) | -2 | \$ (67,432) | 27 |
| Sales returns | (265) | 0 | (1,695) | - | \$ 1,430 | -84 |
| Revenues, net | \$ 9,797,523 | 100 % | \$ 10,471,015 | 100 % | \$ (673,492) | -6 % |

For the three months ended September 30, 2021, we recognized overall revenue from operations of approximately \$9.8 million, which was a \$0.7 million year over year decrease for the same period in 2020. The decrease is mainly due to a decrease in pharmacy revenue of approximately \$1.3 million, 340B fees earned of approximately \$0.6 million, and an increase in DIR and other PBM fees of approximately \$0.1 million. This was offset by an increase in COVID-19 testing and other revenue of approximately \$1.3 million.

Total prescriptions dispensed decreased to approximately 106,000 for the three months ended September 30, 2021, from approximately 138,000 during the same period in 2020, a 23% decrease.

The decrease in prescriptions filled and pharmacy revenues are due to several factors and as follows:

- The COVID-19 pandemic had a significant impact on our workforce, as it caused a large number of employee absences due to employees contracting the virus or out of work to care for sick family members. Furthermore, a number of our employees had issues with childcare/remote schooling that prevented them from working full time hours;
- We experienced challenges in the labor market as it relates to hiring new employees due to fewer workers seeking employment since unemployment benefits were extended and increased, which resulted in an overall smaller selection of properly qualified workers. We have experienced competition for qualified workers from our larger competitors that provide similar services and offered higher hourly compensation and sign-on bonuses; and,
- We have implemented new pharmacy software at our PharmCo 901 location during February 2021, and our PharmCo 1103 location during March 2021. During the second quarter of 2021, we experienced multiple post implementation issues with the software that we did not anticipate and learned that the software did not function as originally presented to us when we made the decision to implement the software. Amongst other things 1) the software was not designed to accommodate our prescription volume and we have experienced continuous business interruptions due to system downtime which caused prescriptions not being received by us; 2) continuous system performance issues that resulted in patients filling prescriptions elsewhere; 3) lack of ability to synchronize patient prescription which led to an increase in the number of deliveries to one patient. As a result of all the performance issues we have experienced with the new software, we made the decision to re-implement our previous pharmacy software during the third quarter of 2021, since the continuous lack of performance with the new software had a severe impact on our pharmacy operations and results that was not sustainable.

It is difficult to predict whether these conditions will be recurring given recent COVID-19 pandemic conditions in Florida.

Pharmacy revenues exceeded 83% and 102% of all revenue for three months ended September 30, 2021, and 2020, respectively. Pharmacy revenues as a percentage of total net revenues for the three months ended September 30, 2021, have decreased when compared to the same period in 2020 due to the increase in revenue from COVID-19 testing in 2021. Revenue from 340B contracts is 7% and 13% as a percentage of total net revenues for the three months ended September 30, 2021, and 2020, respectively. The revenue from 340B contracts has decreased by \$0.6 million or 49% for the three months ended September 30, 2021, when compared to 2020. The decrease was primarily a result of our decision to terminate a non-performing 340B contract.

Nine Months Ended September 30,

| | 2021 | | 2020 | | \$ Change | % Change |
|------------------------|---------------|--------------|---------------|--------------|----------------|----------|
| | Dollars | % of Revenue | Dollars | % of Revenue | | |
| Prescription revenue | \$ 24,929,722 | 86 % | \$ 28,235,462 | 98 % | \$ (3,305,741) | -12 % |
| 340B contract revenue | 2,120,701 | 7 | 1,958,077 | 7 | \$ 162,624 | 8 |
| Testing revenue | 2,926,452 | 10 | - | - | \$ 2,926,452 | 100 |
| Rent and other revenue | 1,575 | 0 | 13,076 | 0 | \$ (11,501) | -88 |
| | 29,978,450 | 103 | 30,206,615 | 105 | \$ (228,166) | -1 |
| PBM Fees | (976,127) | -3 | (1,430,993) | -5 | \$ 454,866 | -32 |
| Sales returns | (3,201) | 0 | (4,662) | - | \$ 1,462 | -31 |
| Revenues, net | \$ 28,999,122 | 100 % | \$ 28,770,960 | 100 % | \$ 228,162 | 1 % |

For the nine months ended September 30, 2021, we recognized overall revenue from operations of approximately \$29.0 million, which was a \$0.2 million year over year increase for the same period in 2020. The increase is mainly due to an increase in 340B fees earned of approximately \$0.2 million, COVID-19 testing revenue of approximately \$2.9 million, and a decrease in DIR and other PBM fees of approximately \$0.5 million. This was offset by a decrease in pharmacy and other revenues of \$3.3 million.

Total prescriptions dispensed decreased to approximately 329,000 for the nine months ended September 30, 2021, from approximately 396,000 during the same period in 2020, a 17% decrease. The decrease in prescriptions filled and pharmacy revenues are due to several factors as follows:

- (a) The COVID-19 pandemic had a significant impact on our workforce, as it caused a large number of employee absences due to employees contracting the virus or out of work to care for sick family members. Furthermore, a number of our employees had issues with childcare/remote schooling that prevented them from working full time hours;
- (b) We experienced challenges in the labor market as it relates to hiring new employees due to fewer workers seeking employment since unemployment benefits were extended and increased, which resulted in an overall smaller selection of properly qualified workers. We have experienced competition for qualified workers from our larger competitors that provide similar services and offered higher hourly compensation and sign-on bonuses; and,
- (c) We have implemented new pharmacy software at our PharmCo 901 location during February 2021, and our PharmCo 1103 location during March 2021. During the second quarter of 2021, we experienced multiple post implementation issues with the software that we did not anticipate and learned that the software did not function as originally presented to us when we made the decision to implement the software. Amongst other things 1) the software was not designed to accommodate our prescription volume and we have experienced continuous business interruptions due to system downtime which caused prescriptions not being received by us; 2) continuous system performance issues that resulted in patients filling prescriptions elsewhere; 3) lack of ability to synchronize patient prescription which led to an increase in the number of deliveries to one patient. As a result of all the performance issues we have experienced with the new software, we made the decision to re-implement our previous pharmacy software during the third quarter of 2021, since the continuous lack of performance with the new software had a severe impact on our pharmacy operations and results that was not sustainable;
- d) Downtime experienced moving our PharmCo 901 operations from North Miami Beach to Hallandale Beach towards the end of 2020/beginning of 2021, and temporary closure of the North Miami Beach location during that time; and
- e) Moving of our PharmCo 1103 Orlando pharmacy to a new facility in Orlando.

It is difficult to predict whether these conditions will be recurring given recent COVID-19 pandemic conditions in Florida.

Pharmacy revenues exceeded 86% and 103% of all revenue for the nine months ended September 30, 2021, and 2020, respectively. Pharmacy revenues as a percentage of total net revenues for the nine months ended September 30, 2021, have decreased when compared to the same period in 2020 due to the increase in revenue from 340B contracts and COVID-19 testing in 2021. Revenue from 340B contracts remains flat at 7% of total net revenues for the nine months ended September 30, 2021, and 2020, respectively. The revenue from 340B contracts has increased by \$0.2 million or 8% for the nine months ended September 30, 2021, when compared to 2020.

Operating Expenses

Our operating expenses increased by approximately \$1.0 million, or 14%, for the nine months ended September 30, 2021, as compared to the same period in 2020. The increase was mainly attributable to the additional operating costs to expand 340B program, moving of our PharmCo 901 and PharmCo 1103 Orlando into new facilities, and costs incurred implementation of new pharmacy software and re-implementation of previous pharmacy software at the PharmCo 901 and PharmCo 1103 locations.

Other Income (loss)

Other income (loss) increased by approximately \$1.2 million for the nine months ended September 30, 2021, as compared to the same period in 2020. The increase was mainly attributable to the gain from debt extinguishment of \$1.1 million from the forgiveness of the Paycheck Protection Program (“PPP”) loans that were issued during the second quarter of 2020 and first quarter of 2021 (\$0.9 million) and a reduction in the Iliad Research note from the excess sales of converted common stock during the first and second quarters of 2021 (\$0.2 million).

Net Income (Loss)

We had net income of \$0.4 million for the nine months ended September 30, 2021, compared to a net loss of \$1.4 million for the same period in 2020. As discussed above, the decrease in net loss is mainly attributable to improved gross margin due to the increase in 340B fees and COVID-19 testing, decrease in DIR and other PBM fees, gain on debt extinguishment, and gain from the change in fair value of the derivative liability.

Non-GAAP Financial Measures

We define Adjusted EBITDA as net income (loss) before interest expense, income taxes, depreciation and amortization, share-based compensation, and certain other items that we do not consider indicative of our ongoing operating performance (which items are itemized below). Adjusted EBITDA is a non-GAAP financial measure.

We consider Adjusted EBITDA to be a supplemental measure of our operating performance. We present Adjusted EBITDA because it is used by our Board and management to evaluate our operating performance. It is also used as a factor in determining incentive compensation, for budgetary planning and forecasting overall financial and operational expectations, for identifying underlying trends and for evaluating the effectiveness of our business strategies. Further, we believe it assists us, as well as investors, in comparing performance from period to period on a consistent basis. Adjusted EBITDA is not in accordance with, or an alternative to, measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles.

As a non-GAAP measure, Adjusted EBITDA has limitations in that it does not reflect all of the amounts associated with our results of operations as determined in accordance with U.S. GAAP and therefore you should not consider Adjusted EBITDA in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. You should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in the presentation, and we do not infer that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA does not include:

- depreciation expense from property and equipment or amortization expense from acquired intangible assets (and although they are non-cash charges, the assets being depreciated/amortized will often have to be replaced in the future)
- interest expense on our debt and capital leases or interest income we earn on cash and cash equivalents;
- the amounts we paid in taxes or other components of our tax provision (which reduces cash available to us);
- change in fair value of derivatives;
- certain expenses associated with our acquisition activities; or

- the impact of share-based compensation or other matters we do not consider to be indicative of our ongoing operations.

Further, other companies in our industry may calculate Adjusted EBITDA differently than we do and these calculations may not be comparable to our Adjusted EBITDA metric. Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income (loss) attributable to us and our financial results presented in accordance with U.S. GAAP.

The table below presents a reconciliation of the most directly comparable U.S. GAAP measure, net income (loss) attributable to us, to Adjusted EBITDA for the periods indicated below:

| | For the Three Months Ended September 30, | |
|--|---|-------------------|
| | 2021 | 2020 |
| Net income (loss) | \$ 528,399 | \$ (262,840) |
| Interest expense | 335,750 | 357,439 |
| Change in fair value of derivative liability | (225,130) | - |
| Income tax benefit | (1,920) | - |
| Depreciation and amortization expense | 57,884 | 200,166 |
| Consolidated Adjusted EBITDA | <u>\$ 694,983</u> | <u>\$ 294,765</u> |

| | For the Nine Months Ended September 30, | |
|--|--|---------------------|
| | 2021 | 2020 |
| Net income (loss) | \$ 364,089 | \$ (1,441,449) |
| Interest expense | 985,163 | 1,084,198 |
| Change in fair value of derivative liability | (913,640) | (881,000) |
| Income tax expense | 7,029 | 6,780 |
| Depreciation and amortization expense | 324,192 | 486,846 |
| Consolidated Adjusted EBITDA | <u>\$ 766,833</u> | <u>\$ (744,625)</u> |

Cash Flows

The following table summarizes our cash flows for the Nine Months Ended September 30, 2021, and 2020.

| | For the Nine Months Ended September 30, | |
|---------------------------------|--|---------------------|
| | 2021 | 2020 |
| <i>Net change in cash from:</i> | | |
| Operating activities | \$ (114,569) | \$ 462,699 |
| Investing activities | (132,702) | (552,879) |
| Financing activities | 247,430 | 960,747 |
| Change in cash | <u>\$ 159</u> | <u>\$ 870,567</u> |
| Cash at end of year | <u>\$ 2,100,854</u> | <u>\$ 1,687,204</u> |

Net cash used in operating activities totaled \$114,569 during the nine months ended September 30, 2021, compared to cash provided by operating activities of \$462,699 for the nine months ended September 30, 2020. During the first nine months of 2021, operation cash flows were negatively impacted due to payment of the first trimester payment of DIR fees that was paid during the third quarter of 2021. During the first nine months of 2020, operational cash flow was positively impacted by the overall change in working capital which was largely due to the accrual for PBM fees during 2020 that did not exist at the end of 2019 when compared to 2020.

Net cash used in investing activities was \$132,702 for the nine months ended September 30, 2021, compared to \$552,879 for the same period in 2020. The cash outflow in 2020 is mainly attributable to the construction at 400 Ansin Blvd in preparation of the relocation

of the North Miami Beach location that occurred at the end of 2020, equipment purchases, capital improvement costs at the various pharmacies, and leasehold improvements.

Net cash provided by financing activities was \$247,430 for the nine months ended September 30, 2021, compared to \$960,747 for the same period in 2020. During the first nine months of 2020, \$1,013,900 in loan proceeds were received from the U.S. CARES Act compared to \$421,400 loan proceeds received during the same period in 2021. The loan proceeds were offset by payments on notes payable and lease liabilities in both periods.

Current and Future Financing Needs

We have an accumulated deficit of \$8.4 million through September 30, 2021. We have spent, and expect to continue to spend, additional amounts in connection with implementing our business strategy.

The Company believes that our cash and cash equivalents on hand on September 30, 2021, along with the cash we expect to generate from pharmacy sales and the available funding from our borrowing arrangements, will allow us to operate over the next 12 months. However, additional funding will be needed for future expansion initiatives and working capital requirements. The actual amount of funds we will need to operate and expand is subject to many factors, some of which are beyond our control. We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing include public or private sales of our shares or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements.

Critical Accounting Policies

Revenue Recognition

The Company recognizes pharmacy revenue from dispensing prescription drugs at the time the drugs are physically delivered to a customer or when a customer picks up their prescription or purchases merchandise at the store, which is the point in time when control transfers to the customer. Each prescription claim is considered an arrangement with the customer and is a separate performance obligation. The Company records unearned revenue for prescriptions that are filled but not yet delivered at period-end. Billings for most prescription orders are with third-party payers, including Medicare, Medicaid, and insurance carriers. Customer returns are nominal. Pharmacy revenues exceeded 83% of total revenue for all periods presented.

The Company accrues an estimate of fees, including direct and indirect remuneration fees (“DIR fees”), which are assessed or expected to be assessed by payers at some point after adjudication of a claim, as a reduction of revenue at the time revenue is recognized. Changes in the estimate of such fees are recorded as an adjustment to revenue when the change becomes known.

Deferred taxes

In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carry-forwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. Based on current estimates of future taxable income, the Company believes that it will not be able to realize the full value of deferred tax assets and has increased its allowance valuation to offset completely its deferred tax assets resulting from Company net operating losses.

Off-Balance Sheet Arrangements

We do not have any unconsolidated special purpose entities and, we do not have significant exposure to any off-balance sheet arrangements. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Recent Accounting Pronouncements

See Note 3 to our unaudited condensed consolidated financial statements, which begins on page 12 of this report.

Item 5. Legal Proceedings

None

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

The following is a list of all contracts which the Company is a party to during the nine month period ended September 30, 2021, and which can reasonably be regarded as material to a security holder of the Company as of the date of this Quarterly Report:

- Contracted Pharmacy Service Agreement – Embrace Arms Foundation, Inc., Curam LLC, and PharmCo 1002, dated as of January 1, 2020.
- Contracted Pharmacy Service Agreement – WHEAT Community Services, Inc., and PharmCo 901, dated as of April 1, 2020.
- 340B Program Services Agreement – Alive and Well Community Partners, LLC and ClearMetrX, Inc., dated as of July 1, 2020.
- 340B Program Services Agreement – Community Life Support, Inc. and ClearMetrX, Inc., dated as of September 8, 2020.
- Contracted Pharmacy Service Agreement – Flex 4 Medical Center, and PharmCo 901, dated as of October 15, 2020.
- Contracted Pharmacy Service Agreement – Community Care Resources of Florida and PharmCo 901., dated as of January 11, 2021.
- Contracted Pharmacy Service Agreement – Barroso Medical Services, LLC and PharmCo 901., dated as of January 12, 2021.
- Contracted Pharmacy Service Agreement – Life Resources, LLC and PharmCo 901 and PharmCo 1002., dated as of July 15, 2021.
- Contracted Pharmacy Service Agreement – Total Health Medical Centers, LLC and PharmCo 901 and PharmCo 1002., dated as of October 6, 2021.
- Contracted Pharmacy Service Agreement – PolyClinique de West Palm Beach and PharmCo 901 and PharmCo 1002., dated as of October 6, 2021.
- Contracted Pharmacy Service Agreement – Life Connect Foundation, Inc. and PharmCo 901 and PharmCo 1002., dated as of October 10, 2021
- Lease agreement for 1160 South Semoran Blvd., Suites D,E,F, Orlando, Florida dated as of August 1, 2020 between JonOsh Properties, LLC and the Company.
- Equipment finance agreement for equipment between Americorp Financial, LLC and the Company dated January 21, 2021.
- Software development agreement between MyApps Corp. and ClearMetrX, LLC dated November 11, 2020.
- Master Services Agreement between Eagleforce Health, LLC and the Company, dated as of February 8, 2021.
- Executive Employment Agreement by and between Birute Norkute and the Company, dated as of January 3, 2020.
- Executive Employment Agreement by and between Cecile Munnik and the Company, dated as of October 15, 2020.
- Amended and Restated Executive Employment Agreement by and between Alan Jay Weisberg and the Company, dated as of July 21, 2021.
- Employment Agreement by and between Armen Karapetyan and the Company, dated as of July 21, 2021.
- Director Agreement by and between Alan Jay Weisberg and the Company, dated as of July 21, 2021.
- Director Agreement by and between Oleg Firer and the Company, dated as of July 21, 2021.
- Director Agreement by and between Jervis Bennett Hough and the Company, dated as of July 21, 2021.

Copies of these agreements will be available for inspection at the office of the Company located at 400 Ansin Boulevard, Suite A, Hallandale Beach, Florida 33009 during ordinary business hours.

Item 9. Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Alan Jay Weisberg, certify that:

1. I have reviewed this quarterly disclosure statement of Progressive Care Inc. and Subsidiaries.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the unaudited condensed consolidated financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 15, 2021

/s/ Alan Jay Weisberg
Alan Jay Weisberg
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Cecile Munnik, certify that:

1. I have reviewed this quarterly disclosure statement of Progressive Care Inc. and Subsidiaries.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the unaudited condensed consolidated financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 15, 2021

/s/ Cecile Munnik
Cecile Munnik
Chief Financial Officer