

HEALTHWAREHOUSE.COM, INC.

Annual Report

For the year ended December 31, 2017

HEALTHWAREHOUSE.COM, INC.

Annual Report

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PART I – ENTITY AND SECURITY INFORMATION

1) Name of the issuer and its predecessors (if any):

HealthWarehouse.com, Inc. (the “Company”, “Issuer or “HEWA”)

Formerly Ion Networks, Inc., formed on August 5, 1998.

Merged with MicroFrame, Inc. on March 16, 1999, name of surviving entity Ion Networks, Inc.

Name changed to Clacendix, Inc. on January 3, 2008.

Name changed to HealthWarehouse.com, Inc. on July 31, 2009.

2) Address of the issuer’s principal executive offices

Company Headquarters

Address 1: 7107 Industrial Road

Address 2: Florence, KY 41042

Phone: (800) 748-7001

Email: support@healthwarehouse.com

Website(s): www.healthwarehouse.com

IR Contact

None

3) Security Information

a) Security information as of December 31, 2017:

| Title and Class of Security | Par Value | Trading Symbol | CUSIP | Total Shares Authorized | Total Shares Outstanding |
|-----------------------------|-----------|----------------|----------------|-------------------------|--------------------------|
| Common Stock | \$0.001 | HEWA | 42227G202 | 100,000,000 | 47,670,997 |
| Preferred Stock – Series A | \$0.001 | Not Applicable | Not Applicable | 200,000 | -0- |
| Preferred Stock – Series B | \$0.001 | Not Applicable | Not Applicable | 625,000 | 517,359 |
| Preferred Stock – Series C | \$0.001 | Not Applicable | Not Applicable | 10,000 | 10,000 |

On April 14, 2017, HEWA filed a Form 15 with the Securities and Exchange Commission terminating the registration of its Common Stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934.

b) Transfer Agent:

American Stock Transfer & Trust Company, LLC

6201 15th Avenue

Brooklyn, NY 11219

Phone: (718) 921-8200

Is the Transfer Agent registered under the Exchange Act? Yes: No:

c) List any restrictions on the transfer of security:

HEWA has issued unregistered shares of common stock that are restricted from resale in the public market unless the sale(s) are exempt from SEC registration requirements.

- d) Describe any trading suspension orders issued by the SEC in the past 12 months: None
- e) List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None that occurred within the past 12 months or currently anticipated.

4) Issuance History

Changes in Total Common Shares Outstanding (last two fiscal years):

Please see the details of changes in shares outstanding for the years ended December 31, 2016 contained in the Company's Form 10-K filed with the SEC on March 21, 2017.

- a) On October 27, 2017 and November 10, 2017, the Company issued an aggregate of 1,633,334 shares of common stock related to the exercise of warrants.
- b) On October 5, 2017, the Company issued 103,920 shares of common stock to directors of the Company for payment of their noncash portion of their director's fees for the third quarter of 2017. The shares had an aggregate grant date value of \$53,000 and were valued at \$0.51 per share, which was the closing price for the Company's common stock on the date of grant.
- c) On September 1, 2017, the Company issued 210,652 shares of common stock to directors of the Company for payment of their noncash portion of their director's fees for the second quarter of 2017. The shares had an aggregate grant date value of \$53,000 and were valued at \$0.2516 per share, which was the closing price for the Company's common stock on the date of grant.
- d) On August 24, 2017, September 7, 2017, November 9, 2017 and November 13, 2017, the Company issued an aggregate of 85,327 common shares to employees as the result of the exercise of stock options.
- e) Effective April 7, 2017 the Company entered into Subscription Agreements (the "Subscription Agreements") with three affiliated accredited investors, namely Joseph Heimbrock, Cormag Holdings, Ltd. and Osgar Holdings Ltd. (collectively, the "Investors") and sold shares of the Company's common stock, par value \$0.001 per share, to the Investors in a non-public offering under Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933, as amended.

Through MVI Partners, LLC, Mr. Heimbrock holds approximately 97% of the Company's outstanding shares of Series B Preferred Stock and Mr. Heimbrock is a member of the Company's Board of Directors.

Cormag Holdings, Ltd. is owned by Mark D. Scott, the Company's Chairman of the Board of Directors and beneficially owns approximately 11.9% of the Company's outstanding shares of common stock after giving effect to the subscription.

Osgar Holdings Ltd. is the beneficial owner of approximately 6.6% of the Company's outstanding shares of common stock after giving effect to the subscription. Hong Penner is the President and sole shareholder of Osgar Holdings Ltd. and she and her husband Brent Penner have loaned Kapok Limited Ventures, a British Columbia corporation ("Kapok") \$250,000 for purposes of financing the Kapok Loan Agreements.

Under the terms of the Subscription Agreements, the Company sold a total of 1,875,000 shares of common stock to the Investors at \$0.16 per share for an aggregate price of \$300,000. In connection with the

Subscription Agreements, MVI Partners, LLC and the other holders of the Company's Series B Preferred Stock executed a Waiver of Rights of First Refusal.

- f) On April 6, 2017, the Company issued 411,490 shares of common stock to directors of the Company for payment of their noncash portion of their director's fees for the first quarter of 2017. The shares had an aggregate grant date value of \$66,250 and were valued at \$0.16 per share, which was the closing price for the Company's common stock on the date of issuance.
- g) On April 3, 2017, the Company issued 400,000 shares of common stock in exchange for the extinguishment of \$121,725 of accounts payable balance for legal services. The shares were valued at \$0.22 per share which was the closing price of the shares on the date of the exchange.
- h) On March 23, 2017, the Company issued 302,001 shares of common stock to four directors of the Company for payment of their noncash portion of their director's fees for their service during the third and fourth quarters of 2016. The shares were valued at \$0.25 per share, which was the closing price for the Company's common stock on the date of grant and had an aggregate grant date value of \$75,500 which had been accrued at December 31, 2016.
- i) On January 6, 2017, the Company issued 66,660 common shares to a former executive as the result of the exercise of stock options.

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

Please see Footnote 13 - Subsequent Events to the Company's consolidated financial statements below for information related to the Company's issuance of common stock related to stock-based compensation for directors and an executive and cashless exercise of warrants.

5) Financial Statements

See PART II –CONSOLIDATED FINANCIAL STATEMENTS below.

6) Issuer's Business, Products and Service

- a) Description of the Issuer's business operations, principal products and their market:

HealthWarehouse.com, Inc. is an online pharmacy, licensed and/or authorized to sell and deliver prescriptions in 50 United States and the District of Columbia focusing on the out-of-pocket prescription drug market, a market which is expected to continue to grow. The Company sells directly to individual consumers who purchase prescription medications and OTC products over the Internet. HealthWarehouse.com is currently 1 of 54 Verified Internet Pharmacy Practice Websites ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP").

Additional information related to the Company's business operations can be found in the Company's Form 10-K for December 31, 2016 which was filed with the SEC on March 21, 2017.

- b) Date and State (or Jurisdiction) of Incorporation:

Current State of Incorporation: Delaware, March 6, 2007

- c) Issuer's primary and secondary SIC Codes;

d) The Issuer's fiscal year end date is December 31.

7) Description of Issuer's Facilities

HealthWarehouse.com, Inc.'s corporate headquarters is located at 7107 Industrial Road, Florence, Kentucky, 41042 which also houses its inventory and pharmacy and customer service operations. The Company occupies 28,494 square feet of office, storage, and warehouse space under a lease with a monthly rental and the lease expires December 31, 2019.

8) Officers, Directors, and Control Persons

A. Names of Officers and Directors

The following table sets forth certain information with respect to the directors and executive officers of the Company as of the date of this information statement December 31, 2017. Please see detailed director biographies contained in the Company's Form 10-K filed with the SEC on March 21, 2017 as well as the Company's 2017 Annual Meeting and Proxy Statement filed with the OTC Markets on August 25, 2017.

Mr. Peters was appointed Interim President and Chief Executive Officer on April 11, 2017 and elected to the Company's Board of Directors on July 24, 2017.

The Company held its 2017 Annual Meeting of Stockholders on September 29, 2017 and announced that its shareholders had elected the nominees to new one-year terms on its Board of Directors and ratified the appointment of its independent accounting firm for the 2017 fiscal year.

Re-elected to the Board of Directors at the stockholders' meeting were Joseph Peters, Mark Scott, and Dr. Stephen Weiss. Jack Britts, a business consultant and former CEO of Crown Laboratories and Merz Pharmaceuticals LLC, was newly elected to the Board.

Holders of the Company's Series B Preferred shares separately elected Joe Heimbrock, to the hold the designated Series B Preferred seat on the Board.

| Name | Title |
|----------------------|---|
| Joseph B. Peters | Interim President and Chief Executive Officer and Principal Financial Officer, and Director |
| Mark D. Scott | Director |
| Dr. Stephen J. Weiss | Director |
| Joseph Heimbrock | Director |
| Jack Britts | Director |

B. Control Persons

The following individuals and entities are the beneficial owners of more than five percent (5%) of HEWA's Common Stock as of December 31, 2017:

| Name | % Shares Owned |
|--|----------------|
| MVI Partners and Joe Heimbrock, Director | 13.3 |
| Dr. Bruce Bedrick | 11.8 |
| Cormag Holdings, LTD and Mark Scott, Director | 11.1 |
| Dellave Holdings, LLC, Melrose Capital Advisors LLC and Tim Reilly | 9.0 |
| Lalit Dhadphale | 6.1 |
| Osgar Holdings | 6.0 |

C. Beneficial Shareholders

The following is a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders are provided.

| Name | Address (City and State only) | % Shares Owned |
|---|---|----------------|
| MVI Partners and Joe Heimbrock, Director | 3299 Hughes Court, Taylor Mill, KY 41015 | 13.3 |
| Dr. Bruce Bedrick | 5375 Monterey Circle #32, Delray Beach, FL 33484 | 11.8 |
| Cormag Holdings, LTD and Mark Scott, Director | 104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6 | 11.1 |

D. Legal/Disciplinary History. Please identify whether any of the above-mentioned Directors, Officers, Control Persons and or Beneficial Shareholders have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator

of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

9) Third Party Providers

Legal Counsel

General Counsel

Name: Mark Kobasuk
Address 1: 7393 Pinehurst Drive
Address 2: Cincinnati, OH 45244
Phone: (513) 607-9078
Email: mgklaw1@gmail.com

Securities Counsel

Name: Kenneth Tabach
Firm: Silver, Freedman, Taff & Tiernan LLP
Address 1: 3299 K Street, N.W. Suite 100
Address 2: Washington, DC 20007
Phone: (202) 295-4500
Email: ktabach@sfttlaw.com

and

Name: Mark J. Zummo
Firm: Kohnen & Patton, LLP
Address 1: 201 East Fifth Street, Suite 800
Address 2: Cincinnati, OH 45202
Phone: (513) 381-0656
Email: mzummo@kplaw.com

Accounting/Auditing Firm

Firm: Marcum LLP
Address 1: 750 Third Avenue, 11th Floor
Address 2: New York, NY 10017
Phone: (212) 485-5500
Email: info@marcumllp.com

On September 29, 2017, at the 2017 Annual Meeting of Stockholders, the stockholders ratified the selection of Marcum LLP to serve as the Company's independent registered public accounting firm for the year ended December 31, 2017.

PART II –CONSOLIDATED FINANCIAL STATEMENTS



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
HealthWarehouse.com, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Healthwarehouse.com, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph - Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2009.

New York, NY
March 29, 2018



HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|--|------------------------------------|------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 3,349 | \$ 3,828 |
| Restricted cash | 378,708 | 243,255 |
| Accounts receivable | 79,030 | 65,431 |
| Inventories | 253,420 | 209,415 |
| Prepaid expenses and other current assets | 98,096 | 85,576 |
| Total current assets | 812,603 | 607,505 |
| Property and equipment, net | 309,096 | 331,759 |
| Deposit | 450,000 | - |
| Web development costs, net | 1,053 | 35,901 |
| Total assets | <u>\$ 1,572,752</u> | <u>\$ 975,165</u> |
| Liabilities and Stockholders' Deficiency | | |
| Current liabilities: | | |
| Accounts payable | \$ 792,824 | \$ 1,841,548 |
| Accrued expenses and other current liabilities | 1,071,439 | 1,036,356 |
| Notes payable | 400,000 | 1,300,000 |
| Note payable and other advances – related parties | 29,102 | 67,905 |
| Redeemable preferred stock - Series C; par value \$0.001 per share; 10,000 designated Series C: 10,000 issued and outstanding as of December 31, 2017 and 2016 (aggregate liquidation preference of \$1,000,000) | 1,000,000 | 1,000,000 |
| Total current liabilities | <u>3,293,365</u> | <u>5,245,809</u> |
| Long term liabilities: | | |
| Notes payable, net of debt discount of \$61,312 as of December 31, 2017 | 1,378,688 | - |
| Total long term liabilities | 1,378,688 | - |
| Total liabilities | <u>4,672,053</u> | <u>5,245,809</u> |
| Commitments and contingencies | | |
| Stockholders' deficiency: | | |
| Preferred stock – par value \$0.001 per share; authorized 1,000,000 shares; issued and outstanding as of December 31, 2017 and 2016 as follows: | | |
| Convertible preferred stock - Series A – 200,000 shares designated Series A; 44,443 shares available to be issued; no shares issued and outstanding | - | - |
| Convertible preferred stock - Series B – 625,000 shares designated Series B; 517,359 shares issued and outstanding as of December 31, 2017 and 2016 (aggregate liquidation preference of \$5,573,509 and \$5,231,274 as of December 31, 2017 and 2016) | 517 | 517 |
| Common stock – par value \$0.001 per share; authorized 100,000,000 shares; 48,850,209 and 43,761,825 shares issued and 47,670,997 and 42,582,613 shares outstanding as of December 31, 2017 and 2016, respectively | 48,850 | 43,762 |
| Additional paid-in capital | 33,151,341 | 32,014,629 |
| Treasury stock, at cost, 1,179,212 shares as of December 31, 2017 and 2016 | (3,419,715) | (3,419,715) |
| Accumulated deficit | (32,880,294) | (32,909,837) |
| Total stockholders' deficiency | <u>(3,099,301)</u> | <u>(4,270,644)</u> |
| Total liabilities and stockholders' deficiency | <u>\$ 1,572,752</u> | <u>\$ 975,165</u> |

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended | |
|---|----------------------------|-----------------------|
| | December 31, | |
| | 2017 | 2016 |
| Net sales | \$ 14,847,262 | \$ 10,384,893 |
| Cost of sales | <u>5,009,663</u> | <u>3,647,433</u> |
| Gross profit | 9,837,599 | 6,737,460 |
| Operating expenses: | | |
| Selling, general and administrative expenses | <u>9,359,593</u> | <u>8,026,636</u> |
| Income (loss) from operations | 478,006 | (1,289,176) |
| Interest expense | <u>(106,231)</u> | <u>(119,027)</u> |
| Net income (loss) | 371,775 | (1,408,203) |
| Preferred stock: | | |
| Series B convertible preferred stock contractual dividends | <u>(342,232)</u> | <u>(342,233)</u> |
| Net income (loss) attributable to common stockholders | <u>\$ 29,543</u> | <u>\$ (1,750,436)</u> |
| Per share data: | | |
| Net income (loss) – basic | \$ 0.01 | \$ (0.03) |
| Net income (loss) – diluted | \$ 0.01 | \$ (0.03) |
| Series B convertible preferred stock contractual dividends | \$ (0.01) | \$ (0.01) |
| Net income (loss) attributable to common stockholders - basic | <u>\$ 0.00</u> | <u>\$ (0.04)</u> |
| Net income (loss) attributable to common stockholders - diluted | <u>\$ 0.00</u> | <u>\$ (0.04)</u> |
| Weighted average number of common shares outstanding - basic | <u>45,214,968</u> | <u>39,743,032</u> |
| Weighted average number of common shares outstanding - diluted | <u>51,880,200</u> | <u>39,743,032</u> |

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY (continued)
YEAR ENDED DECEMBER 31, 2016

| | Series B Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Deficit | Total Stockholders' Deficiency |
|--|--|---------------|-------------------|------------------|-------------------------------|------------------|-----------------------|------------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | | Shares | Amount | | |
| Balances, January 1, 2016 | 483,512 | \$ 484 | 38,844,374 | \$ 38,844 | \$ 30,656,598 | 1,179,212 | \$ (3,419,715) | \$ (31,159,401) | \$ (3,883,190) |
| Stock-based compensation | - | - | - | - | 327,202 | - | - | - | 327,202 |
| Cashless exercise of warrants into common stock | - | - | 1,155,179 | 1,155 | (1,155) | - | - | - | - |
| Exercise of stock options into common stock | - | - | 16,666 | 17 | 1,816 | - | - | - | 1,833 |
| Cashless exercise of stock options into common stock | - | - | 1,492,078 | 1,492 | (1,492) | - | - | - | - |
| Conversion of accounts payable into common stock | - | - | 2,253,528 | 2,254 | 696,340 | - | - | - | 698,594 |
| Issuance of Series B convertible preferred stock as payment-in-kind for dividend | 33,847 | 33 | - | - | 319,820 | - | - | - | 319,853 |
| Contractual dividends on Series B convertible preferred stock | - | - | - | - | - | - | - | (342,233) | (342,233) |
| Warrants issued as debt discount in connection with notes payable | - | - | - | - | 15,500 | - | - | - | 15,500 |
| Net loss | - | - | - | - | - | - | - | (1,408,203) | (1,408,203) |
| Balances, December 31, 2016 | <u>517,359</u> | <u>\$ 517</u> | <u>43,761,825</u> | <u>\$ 43,762</u> | <u>\$ 32,014,629</u> | <u>1,179,212</u> | <u>\$ (3,419,715)</u> | <u>\$ (32,909,837)</u> | <u>\$ (4,270,644)</u> |

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Series B Convertible | | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Accumulated Deficit | Total Stockholders' Deficiency |
|---|-------------------------|---------------|-------------------|------------------|-------------------------------|------------------|-----------------------|------------------------|--------------------------------------|
| | Preferred Stock | | | | | | | | |
| | Shares | Amount | Shares | Amount | | Shares | Amount | | |
| Balances, January 1, 2017 | 517,359 | \$ 517 | 43,761,825 | \$ 43,762 | \$ 32,014,629 | 1,179,212 | \$ (3,419,715) | \$ (32,909,837) | \$ (4,270,644) |
| Stock-based compensation | - | - | 1,028,063 | 1,028 | 267,048 | - | - | - | 268,076 |
| Exercise of options into common stock | | | 151,987 | 152 | 17,647 | - | - | - | 17,799 |
| Warrants issued in exchange for extension of notes payable | - | - | - | - | 7,100 | - | - | - | 7,100 |
| Stock issued in exchange for services | | | 400,000 | 400 | 87,600 | | | | 88,000 |
| Sale of common stock for cash | - | - | 1,875,000 | 1,875 | 298,125 | - | - | - | 300,000 |
| Contractual dividends on Series B convertible preferred stock | - | - | - | - | - | - | - | (342,232) | (342,232) |
| Warrants issued as debt discount in connection with notes payable | - | - | - | - | 65,400 | - | - | - | 65,400 |
| Inducement charge for warrants exercised at discount | | | | | 15,425 | | | | 15,425 |
| Exercise of warrants into common stock | - | - | 1,633,334 | 1,633 | 378,367 | - | - | - | 380,000 |
| Net income | - | - | - | - | - | - | - | 371,775 | 371,775 |
| Balances, December 31, 2017 | <u>517,359</u> | <u>\$ 517</u> | <u>48,850,209</u> | <u>\$ 48,850</u> | <u>\$ 33,151,341</u> | <u>1,179,212</u> | <u>\$ (3,419,715)</u> | <u>\$ (32,880,294)</u> | <u>\$ (3,099,301)</u> |

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

| | For the Year Ended | |
|--|---------------------------|----------------|
| | December 31 | |
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 371,775 | \$ (1,408,203) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 77,065 | 149,553 |
| Stock-based compensation | 351,076 | 327,202 |
| Inducement charge for warrants exercised at a discount | 15,425 | - |
| Gain on settlement of accounts payable and accrued expenses | (139,479) | (99,774) |
| Amortization of debt discount | 4,088 | 15,500 |
| Write off of web development costs | 13,700 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,599) | (13,804) |
| Inventories - finished goods | (44,005) | (26,768) |
| Prepaid expenses and other current assets | (12,520) | (3,858) |
| Accounts payable – trade | (960,724) | 527,873 |
| Accounts payable – related parties | - | (862) |
| Accrued expenses and other current liabilities | (243,570) | 416,311 |
| Net cash used in operating activities | (580,768) | (116,830) |
| Cash flows from investing activities | | |
| Change in restricted cash | (135,453) | (98,167) |
| Capital expenditures | (33,254) | (9,703) |
| Website development costs | - | (13,700) |
| Progress payments deposited with equipment manufacturer | (450,000) | - |
| Net cash used in investing activities | (618,707) | (121,570) |
| Cash flows from financing activities | | |
| Principal payments on equipment leases payable | - | (46,143) |
| Proceeds from exercise of common stock options | 17,799 | 1,833 |
| Proceeds from issuance of notes payable | 1,840,000 | 358,911 |
| Repayment of notes payable | (1,300,000) | (50,000) |
| Proceeds from the exercise of warrants | 380,000 | - |
| Proceeds from the sale of common stock | 300,000 | - |
| Repayment of notes payable and other advances – related parties | (38,803) | (33,590) |
| Net cash provided by financing activities | 1,198,996 | 231,011 |
| Net decrease in cash | (479) | (7,389) |
| Cash - beginning of period | 3,828 | 11,217 |
| Cash - end of period | \$ 3,349 | \$ 3,828 |
| | | |
| Cash paid for: | | |
| Interest | \$ 106,231 | \$ 95,186 |
| Non-cash investing and financing activities: | | |
| Issuance of Series B convertible preferred stock for settlement of accrued dividends | \$ - | \$ 319,853 |
| Cashless exercise of warrants and stock options into common stock | \$ - | \$ 2,647 |
| Exchange of accounts payable for common stock | \$ 88,000 | \$ 698,594 |
| Exchange of accounts payable for notes payable - related party | \$ - | \$ 77,606 |
| Warrants issued for extension of notes payable | \$ 7,100 | \$ - |
| Warrants issued in connection with notes payable | \$ 65,400 | \$ 15,500 |
| Accrual of contractual dividends on Series B convertible preferred stock | \$ 342,232 | \$ 342,233 |
| Common stock issued to satisfy accrued directors' fees | \$ 247,750 | \$ - |

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

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

2. Going Concern and Management's Liquidity Plans

The Company adopted the guidance in Accounting Standards Update ("ASU") 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU requires management to assess a company's ability to continue as a going concern and to provide related disclosures in certain circumstances. Based on the results of the Company's analysis, the following information is provided.

The Company has financed its operations primarily through debt and equity financings. Increased borrowings from the Company's lenders during 2016 and 2017 have not been sufficient to satisfy the Company's current obligations. As of December 31, 2017, the Company had a working capital deficiency of \$2,480,762 and a stockholder deficiency of \$3,099,301. While the Company reported net income of \$371,775 for the year ended December 31, 2017, the Company has historically incurred significant net losses, including a net loss of \$1,408,203 for the year ended December 31, 2016 and has used cash in operating activities of \$580,768 and \$116,830 during the years ended December 31, 2017 and 2016, respectively. These conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

The Company is subject to a 2013 Notice of Redemption related to its Series C Redeemable Preferred Stock aggregating \$1,000,000, whereby, the Company must now apply all of its assets to redemption of the Series C Preferred Stock and to no other corporate purpose, except to the extent prohibited by Delaware law governing distributions to stockholders (the Company is not permitted to utilize toward the redemption those assets required to pay its debts as they come due and those assets required to continue as a going concern).

The Company recognizes it will need to raise additional capital in order to fund operations, meet its payment obligations and execute its business plan. There is no assurance that additional financing will be available when needed or that management will be able to obtain financing on terms acceptable to the Company and whether the Company will become profitable and generate positive operating cash flow. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, attempt to extend note repayments, attempt to negotiate the preferred stock redemption and reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful. If the Company is unable to obtain financing on a timely basis, the Company could be forced to sell its assets, discontinue its operations, and /or seek reorganization under the U.S. bankruptcy code.

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

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include reserves related to accounts receivable and inventory, the recoverability and useful lives of long-lived assets and website development costs, the valuation allowance related to deferred tax assets, the valuation of equity instruments, debt discounts and contingencies.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. As of December 31, 2017 and 2016 the Company did not have any cash equivalents.

Restricted Cash

Restricted cash represents cash held by the Company's credit card processor as a reserve to cover potential future refunds and funds held by the senior lender as collateral for the Company's Senior Note. See Note 6 – Notes Payable to the consolidated financial statements for additional information.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

The Company's management has established an allowance for doubtful accounts sufficient to cover probable and reasonably estimable losses. The nature of the business is that the majority of payments are received before the product is shipped. If the financial conditions of customers were to materially deteriorate, an increase in the allowance amount could be required. The allowance for doubtful accounts considers several factors, including collection experience, current economic trends, estimates of forecasted write-offs, aging of the accounts receivable, and other factors. The Company has determined that an allowance for doubtful accounts was not necessary as of December 31, 2017 and 2016.

Inventories, net

Inventories consist of finished goods and are valued at the lower of cost or net realizable value. Cost is determined by using the first-in, first-out method. As part of the valuation process, inventory reserves are established to state excess and slow-moving inventory at their estimated net realizable value. The valuation process for excess or slow-moving inventory contains uncertainty because management must use judgment to estimate when the inventory will be sold and the quantities and prices at which the inventory will be sold in the normal course of business. Inventory reserves are periodically reviewed, reflecting current risks, trends and changes in industry conditions. When preparing these estimates, management considers historical results, inventory levels and current operating trends. In the event the estimates differ from actual results, inventory-related reserves may be adjusted and could materially impact the results of operations.

Property and Equipment, net

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

the period incurred. Gains or losses on disposal of property and equipment are reflected in the statements of operations in the period of disposal.

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair value. As of December 31, 2017 and 2016, the Company has not recognized any such impairment.

Website Development Costs

The Company capitalizes costs associated with the development of its website. During the years ended December 31, 2017 and 2016, the Company capitalized \$0 and \$13,700, respectively, of website development costs. The Company is amortizing the website development costs on a three-year straight-line basis and incurred amortization expense of \$21,148 and \$62,361 during the years ended December 31, 2017 and 2016, respectively. In addition, the Company recognized a \$13,700 impairment loss in June 2017 as the result of a project not being implemented. As of December 31, 2017, unamortized website development costs totaled \$1,053. Estimated future amortization expense related to website development costs is \$1,053 in 2018. The remainder of the unamortized website development costs will be amortized when the projects to which they relate are placed in service.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These fair value measurements apply to all financial instruments that are measured and reported on a fair value basis.

Based on the observability of the inputs used in the valuation techniques, financial instruments are categorized according to the fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 - Observable inputs such as quoted prices in active markets.
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the assignment of an asset or liability within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The carrying value of items included in the Company's working capital approximates fair value because of the relatively short maturity of these instruments. The Company's notes payable approximate fair value because the terms are substantially similar to comparable debt in the marketplace.

Income Taxes

Deferred tax assets and liabilities are determined on the basis of the difference between the tax basis of assets and liabilities and their respective financial reporting amounts ("temporary differences") at enacted tax rates in effect for the years in which the temporary differences are expected to reverse.

U.S. GAAP prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the Company's financial statements as of December 31, 2017 and 2016. The Company does not expect any significant changes in the unrecognized tax benefits within twelve months of the reporting date.

The Company classifies interest expense and any related penalties related to income tax uncertainties as a component of income tax expense. No interest or penalties have been recognized during the years ended December 31, 2017 and 2016.

Debt Discounts

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

Revenue Recognition

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

Shipping and Handling Costs

The Company policy is to provide free standard shipping and handling for most orders. Shipping and handling costs incurred are recognized in selling, general and administrative expenses. Such amounts aggregated \$1,692,736 and \$1,143,067 for the years ended December 31, 2017 and 2016, respectively.

In certain circumstances, shipping and handling costs are charged to the customer and recognized in Net Sales. The amounts recognized in Net Sales for the years ended December 31, 2017 and 2016 were \$480,444 and \$388,921, respectively.

Advertising and Marketing Expenses

The Company expenses all advertising and marketing costs as incurred and were \$1,083,299 and \$647,053 for the years ended December 31, 2017 and 2016, respectively.

Sales Taxes

The Company accounts for sales taxes imposed on its goods and services on a net basis in the consolidated statements of operations.

Net Earnings (Loss) Per Share of Common Stock

Basic net earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common stock.

| | December 31 | |
|---|--------------------|----------------|
| | 2017 | 2016 |
| Numerator | | |
| Net income (loss) attributable to common shareholders | \$ 29,543 | \$ (1,750,436) |
| Denominator: | | |
| Weighted-average common shares, basic | 45,214,968 | 39,743,032 |
| Weighted-average common shares, diluted* | 51,880,200 | 39,743,032 |
| Net income (loss) per common share: | | |
| Basic | \$ 0.00 | \$ (0.04) |
| Diluted | \$ 0.00 | \$ (0.04) |

* The diluted earnings per common share included the weighted-average effect of 701,667 stock options and 6,027,784 stock warrants that are potentially dilutive to earnings per share for the year ended December 31, 2017, since the exercise price of such securities was less than the weighted average market price of \$0.31 during the period.

Potentially dilutive securities are excluded from the computation of net earnings per share if their inclusion would be anti-dilutive and consist of the following:

| | December 31, | |
|--------------------------------------|---------------------|-------------------|
| | 2017 | 2016 |
| Options | 1,021,345 | 1,294,204 |
| Warrants | 6,541,151 | 7,806,118 |
| Series B Convertible Preferred Stock | 6,192,787 | 6,032,406 |
| Total potentially dilutive shares | <u>13,755,283</u> | <u>15,132,728</u> |

Stock-Based Compensation

Stock-based compensation expense for all stock-based payment awards is based on the estimated fair value of the award. For employees and directors, the award is measured on the grant date. For non-employees, the award is measured on the grant date and is then remeasured at each vesting date and financial reporting date. The Company recognizes the estimated fair value of the award as compensation cost over the requisite service period of the award, which is generally the option vesting term. The Company generally issues new shares of common stock to satisfy option and warrant exercises.

Preferred Stock

Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, the Company classifies its preferred shares in stockholders' deficiency.

Convertible Instruments

U.S. GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional as that term is described under applicable U.S. GAAP.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. The Company also records, when necessary, deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the preferred shares.

Common Stock Warrants and Other Derivative Financial Instruments

The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) provide the Company with a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement) providing that such contracts are indexed to the Company's own stock. The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company's control) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). The Company assesses classification of its common stock purchase warrants and other free-standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

The Company evaluated its free-standing warrants to purchase common stock to assess their proper classification in the consolidated balance sheet as of December 31, 2017 and 2016 using the applicable classification criteria enumerated under U.S. GAAP and determined that the common stock purchase warrants contain fixed settlement provisions.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "*Revenue from Contracts with Customers*", which provides guidance for revenue recognition. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which delayed the effective date of the new revenue guidance by one year. As a result, the provisions of ASU 2014-09, and subsequent amendments, are effective for the Company for annual reporting periods beginning after December 15, 2018. The Company has not yet determined the effect of the adoption of this standard and its impact on the Company's consolidated financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In March 2016, the FASB issued ASU 2016-09, "*Compensation - Stock Compensation*" (Topic 718): *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company beginning January 1, 2018. The Company does not expect that the impact of adoption of this update will be significant on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "*Classification of Certain Cash Receipts and Cash Payments (Topic 230)*". ASU 2016-15 adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of

cash flows, reducing the existing diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 is effective for the Company beginning January 1, 2018. Early adoption is permitted. The Company does not expect that the impact of adoption of this update will be significant on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows (Topic 230): Restricted Cash.*” ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The guidance is effective for the Company in the first quarter of 2019 and early adoption is permitted. ASU 2016-18 must be applied retrospectively to all periods presented. The Company does not expect that the impact of adoption of this update will be significant on its consolidated statements of cash flows.

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

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

| | December 31, | | Useful Life (Years) |
|--------------------------------|---------------------|-------------------|--------------------------------|
| | 2017 | 2016 | |
| Computer Software | \$ 230,299 | \$ 230,299 | 5 years |
| Equipment | 551,015 | 549,365 | 15 years |
| Office Furniture and Equipment | 98,192 | 98,192 | 7 years |
| Computer Hardware | 50,997 | 32,992 | 5 years |
| Leasehold Improvements | <u>322,973</u> | <u>309,374</u> | (a) |
| Total | 1,253,476 | 1,220,222 | |
| Less: Accumulated Depreciation | <u>(944,380)</u> | <u>(888,463)</u> | |
| Property and Equipment, Net | <u>\$ 309,096</u> | <u>\$ 331,759</u> | |

(a) Lesser of useful life or initial term of lease

Depreciation expense for the above assets for the years ended December 31, 2017 and 2016 was \$55,917 and \$87,192, respectively.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

| | December 31, | |
|----------------------------|---------------------|---------------------|
| | 2017 | 2016 |
| Salaries and Benefits | \$ 186,340 | \$ 110,819 |
| Dividend Payable | 684,465 | 342,233 |
| Advertising | - | 75,000 |
| Accrued Interest | 28,436 | 44,249 |
| Accrued Rent | 2,850 | 51,181 |
| Proxy & Solicitation Costs | - | 130,000 |
| Severance | 72,986 | 232,417 |
| Accrued Director Fees | 53,000 | - |
| Deferred Revenue | 11,206 | 8,732 |
| Other | 32,156 | 41,725 |
| | <u>\$ 1,071,439</u> | <u>\$ 1,036,356</u> |

6. Notes Payable

Notes payable consisted of the following:

| | December 31, | |
|--------------------------------------|---------------------|--------------|
| | 2017 | 2016 |
| Senior Note | \$ - | \$ 1,200,000 |
| Promissory Note | - | 100,000 |
| Melrose Note | 400,000 | - |
| Kapok Promissory Note | 1,440,000 | - |
| Total debt | 1,840,000 | 1,300,000 |
| Less current portion | (400,000) | (1,300,000) |
| Long-term debt, less current portion | <u>\$ 1,440,000</u> | <u>\$ -</u> |

Senior Note

The Company was a party to a Loan and Security Agreement dated March 28, 2013 (the "Loan Agreement") with Melrose Capital Advisors (the "Lender"). Under the terms of the Loan Agreement, the Company has borrowed an aggregate of \$1,200,000 from the Lender, including \$308,911 during the year ended December 31, 2016. The Loan was evidenced by a promissory note (the "Senior Note") in the face amount of \$1,200,000 (as amended). The Company also borrowed and repaid \$50,000 from the Lender in a separate transaction during 2016.

Interest expense on the unpaid principal balance of the Senior Note was at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (7.75%) as of December 31, 2016). Under the terms of the Loan Agreement, the Company agreed to make monthly payments of accrued interest.

On November 30, 2016, the Company and the Lender entered into a Fourth Amendment to Amended and Restated Promissory Note, pursuant to which the Lender agreed to extend the maturity date of the Senior Note from November 30, 2016 to February 28, 2017.

On February 28, 2017, the Company and the Lender entered into a Fifth Amendment to Amended and Restated Promissory Note, pursuant to which the Lender agreed to extend the maturity date of the Senior Note from February 28, 2017 to March 30, 2017.

On March 30, 2017, the Company and the Lender entered into a Sixth Amendment to Amended and Restated Promissory Note, pursuant to which the Lender agreed to extend the maturity date of the Senior Note to April 7, 2017. The principal amount and all unpaid accrued interest on the Note was payable on April 7, 2017, or earlier in the event of default or

a sale or liquidation of the Company. The Loan could be prepaid in whole or in part at any time by the Company without penalty.

The Company granted the Lender a first priority security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Loan, including a Deposit Account Control Agreement, dated as of July 8, 2016, which granted the Lender a security interest in certain bank accounts of the Company. The Loan Agreement contained customary negative covenants restricting the Company's ability to take certain actions without the Lender's consent, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. Upon the occurrence of an event of default, the Lender had the right to impose interest at a rate equal to eight percent (8.0%) per annum above the otherwise applicable interest rate (the "Default Rate"). The repayment of the Loan could be accelerated prior to the maturity date upon certain specified events of default, including failure to pay, bankruptcy, breach of covenant, and breach of representations and warranties. The Loan balance of \$1,200,000 and related accrued interest of \$2,104 was paid in full on April 7, 2017, using the proceeds from the Kapok Promissory Note (detailed below) and from an equity raise.

The investor rights agreement of the Company's Series B preferred shares limits the total debt of the Company to \$1 million. The Company received waivers to temporarily exceed the limit in connection with the increase and extensions of the Senior Note. The Senior Note contained financial covenants through June 30, 2016, which required the Company to meet certain minimum targets for earnings before interest, taxes and non-cash expenses, including depreciation, amortization and stock-based compensation ("EBITDAS").

Promissory Note

On October 30, 2013, the Company issued a note payable with a principal amount of \$100,000 to a lender. The note bears interest on the unpaid principal balance until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum. Under the terms of the note, the Company agreed to make monthly payments of accrued interest. The Company's obligations are unsecured and are subordinate to its obligations pursuant to the Senior Note described above. The principal amount and all unpaid accrued interest was payable on October 31, 2016 (as amended).

On January 11, 2016, the Company entered into a Second Amendment to the Promissory Note which extended the maturity date of the note payable from November 1, 2015 to October 31, 2016. In consideration of the extension of the maturity date of the note payable, the Company issued to the lender a five-year warrant to purchase 75,000 shares of common stock at an exercise price of \$0.25 per share. The warrants had a fair value of \$15,500 using the Black-Scholes model which was established as debt discount and was amortized using the effective interest method over the remaining term of the Promissory Note. Including the value of the warrants issued in connection with the extension of the maturity date of the Promissory Note, the Promissory Note had an effective interest rate of 23% per annum during the extension period.

The Company recorded amortization of debt discount of \$15,500 to interest expense during the year ended December 31, 2016, and the debt discount was fully amortized.

On March 3, 2017, the Company and the lender entered into a Third Amendment to Promissory Note effective as October 31, 2016 which extended the maturity date of the note payable from October 31, 2016 to March 31, 2017. The Company continued to make monthly interest payments on the loan. The Promissory Note balance and related accrued interest was paid in full on April 7, 2017, using the proceeds from the Kapok Promissory Note (detailed below) and from an equity raise. In consideration of the extension of the maturity date of the note payable, the Company issued to the lender a five-year warrant to purchase 35,000 shares of common stock at an exercise price of \$0.225 per share. The warrants had a fair value of \$7,100 which was recognized at interest expense on the grant date.

Kapok Promissory Note

Effective April 7, 2017, the Company executed a new promissory note (the "Kapok Promissory Note") and a Security Agreement (the "Kapok Security Agreement") (collectively, the Kapok Promissory Note and the Kapok Security Agreement, the "Kapok Loan Agreements") with Kapok Ventures Limited. Under the terms of the Kapok Promissory Note, the Company borrowed an aggregate of \$1,000,000 from Kapok (the "Kapok Loan"). The Kapok Promissory Note bears interest on the unpaid principal balance until the full amount of principal has been paid at a variable rate equal to the prime rate plus four and

one-quarter percent (4.25%) per annum (8.75% at December 31, 2017). Under the terms of the Kapok Promissory Note, the Company has agreed to make monthly payments of accrued interest on the first day of every month.

Effective November 24, 2017, Kapok agreed to increase the amount of the note from \$1,000,000 to \$2,000,000, of which \$1,440,000 has been funded and was outstanding as of December 31, 2017. The additional proceeds are to be exclusively utilized to fund the acquisition of pharmacy automation equipment. In addition, Kapok agreed to extend the maturity date of the amended note by one year from March 31, 2018 to March 31, 2019 when the outstanding principal amount and all unpaid interest will be due. As part of the transaction, the Company issued to Kapok five-year warrants to purchase 200,000 shares of common stock at exercise price of \$0.43 per share for an aggregate grant date value of \$65,400 which was recognized as a debt discount. The debt discount is being amortized using the effective interest method over the term of the Kapok Promissory Note.

The investor rights agreement of the Company's Series B preferred shares limits the total debt of the Company to \$1 million. The Company has received waivers to temporarily exceed the limit in connection with the extensions and increase of the Kapok Promissory Note. The waiver related to the Kapok Promissory Note expires on March 31, 2019.

Pursuant to the Kapok Security Agreement, the Company granted Kapok a first priority security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Kapok Promissory Note, including a Deposit Account Control Agreement, dated as of June 30, 2017, which granted the Lender a security interest in certain bank accounts of the Company. The Kapok Loan Agreements contain customary negative covenants restricting the Company's ability to take certain actions without Kapok's consent, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. The repayment of the Kapok Promissory Note may be accelerated prior to the maturity date upon certain specified events of default, including failure to pay, bankruptcy, breach of covenant, and breach of representations and warranties.

The initial proceeds from the Kapok Promissory Note and the Subscription Agreements (See Note 8 – Stockholders' Deficiency) were used to repay in full the indebtedness under a Promissory Note in the principal amount of \$100,000 and the \$1,200,000 due to Melrose Capital Advisors, LLC under the Company's Senior Note. The additional proceeds from the \$1,000,000 loan increase are to be exclusively utilized to fund the acquisition of pharmacy automation equipment.

On December 6, 2017, the Company issued to Kapok five-year warrants to purchase 40,000 shares of common stock at an exercise price of \$0.35 per share for an aggregate grant date value of \$11,911 which was record as stock based compensation during the year ended December 31, 2017. The warrants were issued as a requirement of their waiver to allow for the Melrose Promissory Note (detailed below).

Melrose Promissory Note

Effective December 6, 2017, the Company executed a promissory note (the "Melrose Promissory Note") and a Security Agreement (the "Melrose Security Agreement") (collectively, the Melrose Promissory Note and the Melrose Security Agreement, the "Melrose Loan Agreements") with Melrose Capital Advisors, LLC. Under the terms of the Melrose Promissory Note, the Company borrowed an aggregate of \$400,000 from Melrose (the "Melrose Loan"). The Melrose Promissory Note bears interest on the unpaid principal balance until the full amount of principal has been paid at a fixed rate equal to 10% per annum. Under the terms of the Melrose Promissory Note, the Company has agreed to make monthly payments of accrued interest on the first day of every month. The principal amount and all unpaid accrued interest on the Melrose Promissory Note is payable on March 31, 2018. See Note 13.

Pursuant to the Melrose Security Agreement, the Company granted a junior security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Melrose Promissory Note. The Melrose security interest is junior to the Kapok security interest. The Melrose Loan Agreements contain customary negative covenants restricting the Company's ability to take certain actions without Melrose's consent, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. The repayment of the Melrose Promissory Note may be accelerated prior to the maturity date upon certain specified events of default, including failure to pay, bankruptcy, breach of covenant, and breach of representations and warranties.

The proceeds from the Melrose Promissory Note were used to repay the settlement amount related to the Taft litigation. See Section 9 Commitments and Contingent Liabilities – Litigation.

The investor rights agreement of the Company's Series B preferred shares limits the total debt of the Company to \$1 million. The Company has received waivers to temporarily exceed the limit to allow for the Melrose Promissory Note. The waiver related to the Melrose Promissory Note expires on March 31, 2018.

7. Changes in Board of Directors and Management Changes

On October 11, 2016, the Board of Directors of the Company appointed Jeffrey T. Holtmeier as the President and Chief Executive Officer of the Company. Subsequently, the Company and Mr. Holtmeier entered into a written agreement outlining compensation and other terms of Mr. Holtmeier's employment. Mr. Holtmeier was to be paid an annual salary of \$175,000, and had an annual bonus target of 100% of base salary, with the amount of bonus to be determined according to the Company achieving certain financial metrics. Mr. Holtmeier was also granted options under the Company's Long Term Incentive Plan to purchase 125,000 shares of the Company's common stock, at a price of \$0.29 per share, which was the closing price for the Company's common stock on the date of grant.

Effective January 16, 2017, Mr. Jeffrey Holtmeier, Chief Executive Officer of the Company, resigned from his position and as a director of the Company. On January 19, 2017, the Company and Mr. Holtmeier entered into a Separation and Release Agreement in connection with his departure. Mr. Holtmeier was paid severance of one month salary or \$14,583 subsequent to the Termination Date. In addition, the Company paid Mr. Holtmeier an annual bonus for the 2016 year of \$43,750 which was accrued as of December 31, 2016. The salary and bonus (less appropriate withholding for benefits, taxes and any other required withholdings) were paid in accordance with normal Company payroll timing and practices during 2017. As of December 31, 2016, the Company accrued \$66,950 of costs related to Mr. Holtmeier's incurred expenses which were paid during 2017.

On January 18, 2017, the Board of Directors of the Company, appointed John C. Pauly as the Chief Operating Officer and interim President and Chief Executive Officer of the Company. Subsequently, the Company and Mr. Pauly entered into a written agreement outlining compensation and other terms of Mr. Pauly's employment. Mr. Pauly was to be paid an annual salary of \$100,000. Effective March 31, 2017, Mr. Pauly resigned his position with the Company. The Company paid severance of \$8,333 to Mr. Pauly.

On April 11, 2017, the Board of Directors of the Company, appointed Joseph Peters as Interim President and Chief Executive Officer of the Company. Subsequently, the Company and Mr. Peters entered into a written agreement outlining compensation and other terms of Mr. Peters employment. Mr. Peters will be paid an annual salary of \$100,000. The term of Mr. Peters' employment shall be for a period commencing on January 18, 2017, and continuing through the close of business on December 31, 2017, unless and until terminated as hereinafter provided. The Agreement shall renew for subsequent one (1) year terms unless terminated by either party as provided herein.

On July 10, 2017, the Company entered into an Employment and Change of Control Agreement with Joseph Peters. The terms of the agreement became effective on April 11, 2017 and included titles and positions of Interim Chief Executive Officer and President and an initial base salary of \$104,000 per year, subject to certain bonus and severance provisions. See Note 13 – Subsequent Events.

In October 2017, the Company entered in to an employment agreement with John Pauly in the position of Executive Vice President being responsible for business development efforts of the Company. Mr. Pauly will be paid an annual salary of \$100,000. See Note 13 – Subsequent Events.

Related to the solicitation of shareholders' proxies and subsequent resignations per certain employment agreements, the Company incurred proxy and solicitation costs of \$578,484 and severance costs of \$276,167 during the years ended December 31, 2016. During 2017, severance costs related to Mr. Holtmeier's and Mr. Pauly's resignations totaled \$22,916. The proxy and solicitation and severance costs are included as a component of selling, general and administrative expenses in the consolidated statements of operations. At December 31, 2017 and 2016, \$147,344 and \$72,986 and \$211,722 and \$392,417, respectively, of these costs were recorded in Accounts Payable, and Accrued Expenses and Other Current Liabilities, respectively.

See Note 13 – Subsequent Events for additional management changes after December 31, 2017.

8. Stockholders' Deficiency

The Company is authorized to issue up to 100,000,000 shares of common stock with a par value of \$0.001 per share and 1,000,000 shares of preferred stock with a par value of \$0.001 per share.

OTC Market Tier Change

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

Common Stock

On July 28, 2016, the Company entered into an Exchange Agreement with Dellave Holdings LLC (“Dellave”) whereby the Company issued an aggregate of 2,253,528 shares of common stock in exchange for the extinguishment of \$698,594 of accounts payable balances held by Dellave. The exchange was based on the prior day’s closing price of \$0.31 of the Company’s common stock. The \$698,594 aggregate fair value of the common stock issued was credited to equity at conversion. Mr. Timothy Reilly is the managing member of Dellave and he is also the managing member of Melrose Capital Advisors, LLC, the Company’s senior lender at the time of the transaction.

On April 3, 2017, the Company issued 400,000 shares of common stock in exchange for the extinguishment of \$88,000 of accounts payable balance for legal services. The shares were valued at \$0.22 per share which was the closing price of the shares on the date of the grant.

Effective April 7, 2017 the Company entered into Subscription Agreements (the "Subscription Agreements") with three affiliated accredited investors, namely Joseph Heimbrock, Cormag Holdings, Ltd. and Osgar Holdings Ltd. (collectively, the "Investors") and sold 1,875,000 shares of the Company's common stock, at \$0.16 per share for an aggregate price of \$300,000.

Through MVI Partners, LLC, Mr. Heimbrock holds substantially all of the Company's outstanding shares of Series B Preferred Stock and Mr. Heimbrock is a member of the Company's Board of Directors. Cormag Holdings, Ltd. is owned by Mark D. Scott, the Company's Chairman of the Board of Directors and owns greater than 5% of the Company's outstanding shares of common stock. Osgar Holdings Ltd. is the beneficial owner of more than 5% of the Company's outstanding shares of common stock. Hong Penner is the President and sole shareholder of Osgar Holdings Ltd. and she and her husband Brent Penner have loaned Kapok Limited Ventures, a British Columbia corporation ("Kapok") \$250,000 for purposes of financing the Company’s Kapok Promissory Note.

During 2017, the Company issued an aggregate of 1,028,063 shares of common stock to directors of the Company for payment of their noncash portion of their director’s fees. The shares had an aggregate grant date value of \$247,750, of which \$75,500 had been accrued at December 31, 2016, and were valued at the closing prices for the Company’s common stock on the dates of grant which ranged between \$0.16 and \$0.51 per share.

Preferred Stock

Series A Preferred Stock

The Company has designated 200,000 of the 1,000,000 authorized shares of preferred stock as Series A Convertible Preferred Stock (“Series A Preferred Stock”). The Series A Preferred Stock is non-voting, has a liquidation preference equal to its purchase price, and does not pay dividends. The holders can call for the conversion of the Series A Preferred Stock at any time and are entitled to half a share of the Company’s common stock for each share of Series A Preferred Stock converted. As of December 31, 2017, 44,443 shares of Series A Preferred Stock are available to be issued. There were no shares of Series A Preferred Stock outstanding as of December 31, 2017 or 2016.

Series B Preferred Stock

The Company has designated 625,000 of the 1,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock (“Series B Preferred Stock”). The Series B Preferred Stock has voting rights equal to one vote for each common share equivalent, has a liquidation preference equal to its purchase price, and receives preferred dividends equal to 7% of all outstanding shares in either cash or payment-in-kind. The holders can call for the conversion of the Series B Preferred Stock at any time and are entitled to five shares of the Company’s common stock for each share of Series B Preferred Stock converted.

In addition, the Series B Preferred Stock is subject to weighted average anti-dilution protection whereby if shares of common stock are sold below the current conversion price, the conversion price is reduced pursuant to a pre-defined formula. As of December 31, 2017 and 2016, Series B holders were entitled to convert into 11.97 and 11.66 shares, respectively, of the Company’s common stock for each share of Series B Preferred Stock due to the anti-dilution provision. The anti-dilution provision represents a contingent beneficial conversion feature. As of December 31, 2017, an incremental 3,605,993 shares of common stock are issuable at conversion of the Series B Convertible Preferred Stock as compared to the original terms. Using the commitment date common stock price in effect, the commitment date value of the incremental shares is \$9,101,527.

However, recognition of beneficial conversion features is limited to the aggregate gross proceeds allocated to the preferred stock of \$3,199,689 (422,315 shares of Series B Convertible Preferred Stock times \$9.45 per share less the proceeds allocated to the warrants of \$791,188) less the \$1,666,967 beneficial conversion feature already recognized on the original 365,265 shares of Series B Preferred Stock (prior to the issuance of additional shares as payment-in-kind in lieu of cash dividends). Due to these limitations, no beneficial conversion feature value was recorded for the years ended December 31, 2017 and 2016. The investor rights agreement of the Company’s Series B preferred shares limits the total debt of the Company to \$1 million. The agreement also limits the ability to raise preferred equity at current market conversion rates.

As of the year ended December 31, 2017 and 2016, the Company had accrued contractual dividends of \$684,465 and \$342,233, respectively, related to the Series B Preferred Stock. On January 1, 2016, the Company issued 33,847 shares of Series B convertible preferred stock valued at approximately \$320,000, representing approximately \$0.66 in value per share of Series B Preferred Stock outstanding on that date, to the Series B convertible preferred stock owners as payment in kind for dividends.

Series C Preferred Stock

The Company’s Certificate of Designation designates 10,000 shares of the Company’s preferred stock as Series C Preferred Stock to be issued at an original issue price of \$100 per share. The Series C Preferred Stock has voting rights equal to one vote for each share held, has a liquidation preference equal to its purchase price, and has certain redemption rights available at the option of the holder. The Series C Preferred Stock is non-convertible and does not pay dividends.

On October 17, 2011, the Company received net cash proceeds of \$1,000,000 for the sale of 10,000 shares of Series C Preferred Stock to a greater than 10% stockholder of the Company. Since certain of the Company’s preferred shares contain redemption rights which are not solely within the Company’s control, these issuances of preferred stock were initially presented as temporary equity. On February 13, 2013, the Company received a Notice of Redemption of Series C Preferred Stock and as a result, the shares are classified as a current liability as of December 31, 2017 in the Company’s consolidated balance sheet.

Incentive Compensation / Stock Option Plans

The Company sponsors an Incentive Compensation Plan (the “2009 Plan”) which was approved by the Board of Directors and the Company’s Stockholders, and initially allowed the total number of shares of common stock issuable pursuant to the 2009 Plan to be 2,881,425 shares.

The 2009 Plan imposes individual limitations on the amount of certain awards. Under these limitations during any fiscal year of the Company, the number of options, stock appreciation rights, shares of restricted stock, shares of deferred stock, performance shares and other stock based-awards granted to any one participant under the 2009 Plan may not exceed 250,000 shares, subject to adjustment in certain circumstances. The maximum amount that may be paid out as performance units in any 12-month performance period is an aggregate value of \$2,000,000, and the maximum amount that may be paid out as performance units in any performance period greater than 12 months is an aggregate value of \$4,000,000. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be

exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the board of directors or committee of the Company's board of directors designated to administer the 2009 Plan (the "Committee"), except that no option or stock appreciation right may have a term exceeding ten years. The exercise price per share subject to an option and the grant price of a stock appreciation rights are determined by the Committee, but in the case of an incentive stock option (ISO) must not be less than the fair market value of a share of common stock on the date of grant.

Following the approval of the Board of Directors and stockholders of record as of August 25, 2014, the Company adopted the 2014 Equity Incentive Plan (the "2014 Plan") which made a total of 6,000,000 shares of common stock authorized and available for issuance pursuant to awards granted under the 2014 Plan.

The 2014 Plan limit imposes individual limitations on the amount of certain awards. Under these limitations during any fiscal year of the Company, the number of options, stock appreciation rights, shares of restricted stock, shares of deferred stock, performance shares and other stock based-awards granted to any one participant under the 2014 Plan may not exceed 1,500,000 shares, subject to adjustment in certain circumstances. The maximum number of shares that may be awarded that are not subject to performance targets is an aggregate of 1,200,000 shares. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the Committee designated to administer the 2014 Plan, except that no option or stock appreciation right may have a term exceeding ten years. The exercise price per share subject to an option and the grant price of a stock appreciation rights are determined by the Committee, but in the case of an incentive stock option (ISO) must not be less than the fair market value of a share of common stock on the date of grant.

Stock Options

Grants

During the year ended December 31, 2017, the Company granted options to an officer of the Company to purchase an aggregate of 100,000 shares of common stock under the 2014 Plan at an exercise price of \$0.22 per share for an aggregate grant date value of \$21,493. The options vested immediately and have a term of ten years.

During the year ended December 31, 2016, the Company granted options to and directors, employees, and consultants of the Company to purchase an aggregate of 660,265 shares of common stock under a previously approved plan at exercise price ranging between \$0.24 and \$0.35 per share for an aggregate grant date value of \$195,875. The options vested on the grant date and have a term of ten years.

Exercise

During the year ended December 31, 2017, the Company received proceeds of \$17,799 from the exercise of options to purchase 151,987 shares of common stock. The options had exercise prices ranging from \$0.09 and \$0.35 per share.

During the year ended December 31, 2016, the Company issued an aggregate of 1,492,078 shares of common stock to holders of options who elected to exercise options to purchase 3,091,475 shares of common stock on a cashless basis under the terms of the options. The options had exercise prices ranging from \$0.09 and \$0.30 per share.

During the year ended December 31, 2016, the Company received proceeds of \$1,833 from the exercise of options to purchase 16,666 shares of common stock. The options had exercise prices of \$0.11 per share.

The aggregate intrinsic value of the options exercised was \$36,821 and \$480,041 for the years ended December 31, 2017 and 2016, respectively.

Valuation and Amortization

Option valuation models require the input of highly subjective assumptions. The fair value of the stock-based payment awards is estimated utilizing the Black-Scholes option model. The volatility component of this calculation is derived from the historical trading prices of the Company's own common stock. The Company accounts for the expected life of

options in accordance with the “simplified” method for “plain vanilla” share options. The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company’s forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company’s actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. The Company estimated forfeitures related to option grants at a weighted average annual rate of 0% and 5% per year for options granted during the years ended December 31, 2017 and 2016, respectively.

In applying the Black-Scholes option pricing model to stock options granted, the Company used the following weighted average assumptions:

| | Year Ended December 31, | |
|---|--------------------------------|------------------|
| | 2017 | 2016 |
| Risk-free interest rate | 2.00% | 1.00% to 2.12% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected volatility | 192.0% | 196.0% to 200.0% |
| Weighted average expected life (contractual term) in years | 5.5 | 5.5 to 10.0 |

Stock-based compensation expense related to stock options was recorded in selling, general and administrative expenses in the consolidated statements of operations and totaled \$46,247 and \$327,202 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, stock-based compensation expense related to stock options of \$8,638 remains unamortized which is being amortized over the weighted average remaining period of 0.6 years.

Summary

A summary of the stock option activity during the years ended December 31, 2017 and 2016 is presented below:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|--------------------------------|------------------------------|--|--|--|
| Outstanding, January 1, 2016 | 5,341,284 | \$ 0.70 | | |
| Granted | 660,265 | 0.30 | | |
| Exercised | (3,108,141) | 0.16 | | |
| Forfeited | (1,599,204) | 1.73 | | |
| Outstanding, December 31, 2016 | 1,294,204 | \$ 0.51 | | |
| Granted | 100,000 | 0.22 | | |
| Exercised | (151,987) | 0.12 | | |
| Forfeited | (220,872) | 0.28 | | |
| Outstanding, December 31, 2017 | <u>1,021,345</u> | <u>\$ 0.59</u> | <u>6.8</u> | <u>\$ 239,490</u> |
| Exercisable, December 31, 2017 | <u>895,789</u> | <u>\$ 0.71</u> | <u>6.6</u> | <u>\$ 196,801</u> |

The following table presents information related to stock options outstanding and exercisable at December 31, 2017:

| Range of Exercise Price | Options Outstanding | | Options Exercisable | | |
|-------------------------|---------------------------------|-------------------------------|---------------------------------|--|-------------------------------|
| | Weighted Average Exercise Price | Outstanding Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | Exercisable Number of Options |
| \$0.09 - \$0.12 | \$ 0.10 | 601,667 | \$ 0.10 | 7.4 | 476,111 |
| \$0.22 - \$0.35 | 0.28 | 174,228 | 0.28 | 9.2 | 174,228 |
| \$0.53 - \$1.60 | 0.87 | 188,450 | 0.87 | 3.3 | 188,450 |
| \$4.10 - \$6.99 | 5.80 | 57,000 | 5.80 | 4.1 | 57,000 |
| \$0.09 - \$6.99 | \$ 0.59 | <u>1,021,345</u> | \$ 0.66 | 6.7 | <u>895,789</u> |

Warrants

Valuation

In applying the Black-Scholes option pricing model to stock warrants granted, the Company used the following weighted average assumptions:

Grants

| | Year Ended December 31, | |
|---------------------------|-------------------------|--------|
| | 2017 | 2016 |
| Risk-free interest rate | 1.58% to 2.11% | 1.58% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected volatility | 191.0% to 200.0% | 200.0% |
| Contractual term in years | 5.00 | 5.00 |

During the year ended December 31, 2017, the Company issued to a financial consultant five-year warrants to purchase 93,367 shares of common stock at exercise prices ranging between \$0.33 and \$0.50 per share for an aggregate grant date value of \$33,131.

During the year ended December 31, 2017, the Company issued to a lender five-year warrants to purchase 35,000 shares of common stock at an exercise price of \$0.225 per share for a grant date value of \$7,100. See Note 6 – Notes Payable for additional information.

During the year ended December 31, 2017, the Company issued to a lender five-year warrants to purchase 240,000 shares of common stock at exercise prices ranging between \$0.35 and \$0.43 per share for an aggregate grant date value of \$77,391. See Note 6 – Notes Payable for additional information.

The weighted average fair value of the stock warrants granted during the years ended December 31, 2017 and 2016, respectively, was \$0.32 and \$0.25 per share.

Exercise

During the year ended December 31, 2017, the Company notified certain holders of warrants of an offer to exercise their warrants at a discounted exercise price of up to 80% of the existing exercise price of their warrants. As a result of the offer, the Company received proceeds of \$380,000 from the exercise of warrants to purchase an aggregate of 1,633,334 shares of common stock for cash, including 1,333,334 warrants exercised by a director of the Company. The warrants had exercise prices ranging between \$0.20 and \$0.24 per share. The aggregate intrinsic value of the warrants exercised was \$294,333 for

the year ended December 31, 2017. The Company recognized inducement expense upon the acceptance of the offer which resulted in \$15,425 of expense included in the statement of operations for the year ended December 31, 2017.

During the year ended December 31, 2016, the Company issued an aggregate of 1,155,179 shares of common stock to a holder of warrants who elected to exercise warrants to purchase 1,795,080 shares of common stock on a cashless basis under the terms of the warrants. The warrants had an exercise prices ranging from \$0.10 to \$0.15 per share. The aggregate intrinsic value of the warrants exercised was \$414,176 for the year ended December 31, 2016.

As of December 31, 2017 and 2016, there was no stock-based compensation expense related to warrants that remains unamortized.

A summary of the stock warrant activity during the years ended December 31, 2017 and 2016, respectively, is presented below:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | Aggregate Intrinsic Value |
|--------------------------------|-------------------------------|--|---|--|
| Outstanding, January 1, 2016 | 10,046,198 | \$ 0.41 | | |
| Granted | 75,000 | 0.25 | | |
| Exercised | (1,795,080) | 0.13 | | |
| Forfeited | (520,000) | 2.90 | | |
| Outstanding, December 31, 2016 | 7,806,118 | \$ 0.30 | | |
| Granted | 368,367 | 0.39 | | |
| Exercised | (1,633,334) | 0.29 | | |
| Forfeited | - | - | | |
| Outstanding, December 31, 2017 | <u>6,541,151</u> | <u>\$ 0.31</u> | <u>1.6</u> | <u>\$ 1,032,976</u> |
| Exercisable, December 31, 2017 | <u>6,541,151</u> | <u>\$ 0.31</u> | <u>1.6</u> | <u>\$ 1,032,976</u> |

The following table presents information related to stock warrants at December 31, 2017:

| Range of Exercise Price | Warrants Outstanding | | Warrants Exercisable | | |
|--|--|---|--|---|---|
| | Weighted Average Exercise Price | Outstanding Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | Exercisable Number of Warrants |
| \$0.15 - \$0.25 | \$ 0.25 | 1,851,120 | \$ 0.25 | 0.9 | 1,851,120 |
| \$0.30 - \$0.35 | 0.31 | 4,660,031 | 0.31 | 1.9 | 4,660,031 |
| \$4.95 | 4.95 | 30,000 | 4.95 | 4.8 | 30,000 |
| \$0.15 - \$4.95 | \$ 0.31 | <u>6,541,151</u> | \$ 0.31 | 1.6 | <u>6,541,151</u> |

9. Commitments and Contingent Liabilities

Operating Leases

The Company is a party to a lease for office and storage space and for its Company's corporate headquarters in Florence, Kentucky, which terminates on December 31, 2019. The monthly lease rate will be \$6,886 in 2018 and \$7,124 in 2019.

The Company accounts for rent expense using the straight-line method of accounting, deferring the difference between actual rent paid and the straight-line amount. The Company amortizes the balance of the remaining deferred rent payable over the remaining life of the amended lease term. Deferred rent payable of \$2,849 and \$0 as of December 31, 2017 and 2016, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

The Company was a party to a three-year lease for \$1,000 per month to house an office, pharmacy and inventory located in Lawrenceburg, Indiana, which had a termination date of June 7, 2018. In January 2014, the Company closed and vacated the Lawrenceburg facility. In August 2017, the Company paid \$3,000 cash to the landlord to settle the amounts owed under the lease and recognized a \$48,665 gain which is recorded in Other Expense within Selling, General and Administrative expenses in the Statements of Operations.

Future minimum payments under our non-cancelable operating lease as of December 31, 2017 are as follows:

| <u>Year ended December 31,</u> | <u>Amount</u> |
|--------------------------------|-------------------|
| 2018 | \$ 82,633 |
| 2019 | 85,482 |
| Total minimum lease payments | <u>\$ 168,115</u> |

During the years ended December 31, 2017 and 2016, the Company recorded aggregate rent expense of \$107,445 and \$69,819, respectively.

Employment Agreement

On May 9, 2016, the Company entered into an employment agreement (the “Employment Agreement”) with Mr. Lalit Dhadphale. The terms of the Employment Agreement include a term of two years beginning on January 1, 2016 with an extension provision, the titles and positions of Chief Executive Officer and President, an initial base salary of \$175,000 per year, subject to certain bonus and severance provisions. See Notes 7 for additional information.

On March 15, 2017, the Company entered into a settlement agreement (the “Settlement Agreement”) by and between the Company and Lalit Dhadphale (“Dhadphale”) relating to a claim filed by Dhadphale in Lalit Dhadphale v. Healthwarehouse.com, Inc., Boone County, Kentucky Circuit Court, Civil Action No. 16-CI-01628 (the “Complaint”) alleging failure to pay certain severance payments pursuant to the employment agreement by and between the Company and Dhadphale. Pursuant to the Settlement Agreement, the Company agreed to pay Dhadphale \$200,000 in return for a full release of any and all future claims and a dismissal with prejudice of the Complaint within seven business days of the execution of the Settlement Agreement. The Company has agreed to pay Mr. Dhadphale \$30,000 within sixty days of the execution of the Agreement with the remaining \$170,000 payable in equal semi-monthly payments over eighteen months beginning March 15, 2017. As of December 31, 2017, the Company had accrued \$72,986 related to this liability.

Effective January 16, 2017, Mr. Jeffrey Holtmeier, resigned his position as Chief Executive Officer and a director of the Company. On January 19, 2017, the Company and Mr. Holtmeier entered into a Separation and Release Agreement in connection with his departure where Mr. Holtmeier was paid his current salary for the period up to and including the day which is thirty days after his resignation date. In addition, the Company paid Mr. Holtmeier a \$43,750 annual bonus for 2016 which was accrued as of December 31, 2016. The bonus was paid in ten equal monthly payments beginning February 1, 2017. In addition, as of December 31, 2016, the Company had accrued \$66,950 of costs related to Mr. Holtmeier’s out-of-pocket expenses which was paid in ten equal monthly payments during 2017.

On January 18, 2017, the Board of Directors of the Company appointed John C. Pauly as the Chief Operating Officer and interim President and Chief Executive Officer of the Company. Subsequently, the Company and Mr. Pauly entered into a written agreement outlining compensation and other terms of Mr. Pauly’s employment by which Mr. Pauly was to be paid an annual salary of \$100,000. The term of Mr. Pauly’s employment with the Company was to be for a period commencing on January 18, 2017, and continuing through the close of business on December 31, 2017, unless and until terminated as provided. Effective March 31, 2017, Mr. Pauly resigned from the Company.

On July 10, 2017, the Company entered into an employment agreement with Mr. Joseph Peters. The terms of the Employment Agreement include the titles and positions of Interim Chief Executive Officer and President, an initial base salary of \$104,000 per year, subject to certain bonus and severance provisions. In addition, the Company granted to Mr. Peters stock options to purchase an aggregate of 100,000 shares of common stock under a previously approved plan at exercise price of \$0.22 per share for an aggregate grant date value of \$21,493. Mr. Peters' agreement was bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition. See Notes 7 and 13 for additional information.

Litigation

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

On June 7, 2016, Shipping & Transit LLC filed suit against the Company for infringing on certain claims of patents held by Shipping & Transit. On July 20, 2016, the Company entered into a Settlement, Release and License Agreement whereby the Company paid \$11,000 for any past violations and future licensing of the patents.

Taft Stettinius & Hollister LLC ("Taft") filed a complaint against the Company on May 13, 2016 in the Hamilton County Court of Common Pleas, Case No. A1602800, alleging the Company owes legal fees and costs in the amount of \$935,392, together with accrued prejudgment interest. The Company answered the complaint, denying the material allegations therein, and asserted several affirmative defenses, including excessive legal fees and charges, unauthorized and improper fees, and related defects in performance by Taft. On September 29, 2017, the Company announced that it had reached agreement with Taft for the settlement and resolution of all claims. As part of the settlement agreement, the Company has agreed to pay \$950,000 to Taft on or before December 6, 2017 (approximately \$937,000 of which was previously accrued). The Company paid such amounts in full on December 6, 2017.

10. Concentrations

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

During the year ended December 31, 2017, three suppliers represented 32%, 27% and 15% of total inventory purchases. During the year ended December 31, 2016, three suppliers represented 43%, 17% and 16% of total inventory purchases.

As of December 31, 2016, the Company had included \$936,777 in its accounts payable-trade in the consolidated balance sheets related to amounts in litigation. See Note 9 - Commitments and Contingent Liabilities for additional information.

11. Related Party Transactions

On August 15, 2013, the Company was advanced \$56,000 from a related party. Subsequently, \$7,000 of that advance was repaid and the Company issued a promissory note for the remaining balance of \$49,000 (the "Original Note"). The Original Note had an interest rate of 10% per annum and a maturity date of November 7, 2013. The Company made payments on the note and in November 2013, the remaining \$42,095 balance of the Original Note was replaced by another note (the "Replacement Note"). The Replacement Note waived any existing default under the Original Note and had a maturity date of May 31, 2014 with all other terms of the Replacement Note and Original Note remaining the same. Effective July 23, 2015, the Company reached a settlement agreement with the related party whereby the Company agreed to pay twelve monthly payments of \$4,099 on the first of each month starting on August 1, 2015 to fully satisfy its obligations under the note payable. During the year ended December 31, 2016, the Company made principal payments of \$23,889, and recorded interest expense of \$702. The note was repaid in full in July 2016.

On October 3, 2016, the Company reached a settlement with the same related party in regard to certain balances of accounts receivables from and accounts payable to the related party. The Company agreed to pay \$77,606, payable in twenty-four monthly payments of \$3,234, with no interest, beginning October 15, 2016. The settlement resulted in the Company recognizing a \$44,343 gain which is included in Selling, General and Administrative Expenses for the year ended December 31, 2016. During the years ended December 31, 2017 and 2016, the Company made \$38,803 and \$9,701, respectively, in payments related to this payable.

In the fourth quarter of 2016, the Company entered into a master services agreement for information technology and marketing analytics projects with a company that Mr. Jeff T. Holtmeier, the Company's former President and Chief Executive Officer, holds a minority ownership interest and chairman of its board of directors. During the years ended December 31, 2017 and 2016, the Company incurred \$87,704 and \$49,376 of costs under the agreement, respectively, which were recognized as web development costs. Amounts due under this agreement of approximately \$4,000 have been included in accounts payable as of December 31, 2017. The agreement terminated on December 31, 2017.

In July 2016, the Company entered into an Exchange Agreement with Dellave Holdings LLC (See Note 8 – Stockholders' Deficiency) which the Company issued the Company's common stock in exchange for the extinguishment of accounts payable balances held by Dellave. On December 6, 2017, the Company borrowed an aggregate of \$400,000 from and entered into certain loan documents with Melrose Capital Advisors, LLC. Mr. Tim Reilly, a significant stockholder of the Company, is the single member of both Dellave and Melrose Capital Advisors, LLC (See Note 6 – Notes Payable).

12. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2017 and 2016 was as follows:

| | <u>Year Ended December 31,</u> | |
|--------------------------------|--------------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Federal: | | |
| Current | \$ - | \$ - |
| Deferred | 2,548,015 | (453,586) |
| State and local: | | |
| Current | - | - |
| Deferred | (65,238) | (53,684) |
| | <u>2,482,777</u> | <u>(507,270)</u> |
| Change in valuation allowance | (2,482,777) | 507,270 |
| Income tax provision (benefit) | <u>\$ -</u> | <u>\$ -</u> |

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

| | December 31, | |
|---|---------------------|--------------|
| | 2017 | 2016 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 3,912,308 | \$ 6,098,963 |
| Stock-based compensation | 483,067 | 700,295 |
| Inventory reserves | 5,989 | 8,842 |
| Allowance for bad debt | - | - |
| Deferred Revenue | 2,884 | 3,318 |
| Deferred Rent | 734 | - |
| Charitable contribution carryforwards | 234 | 2,711 |
| Accruals | 15,284 | 104,397 |
| Total deferred tax assets | 4,420,500 | 6,918,526 |
| Valuation allowance | (4,403,683) | (6,886,459) |
| Deferred tax assets, net of valuation allowance | 16,817 | 32,067 |
| Deferred tax liabilities: | | |
| Property and equipment | (15,183) | (32,599) |
| Web development | (1,634) | 532 |
| Deferred tax liabilities | \$ (16,817) | \$ (32,067) |
| Net deferred tax assets | \$ - | \$ - |
| Change in valuation allowance | \$ (2,482,777) | \$ 502,270 |

The Company assesses the likelihood that deferred tax assets will be realized. To the extent that realization is not likely, a valuation allowance is established. While the Company has had a history of generating losses, the Company operated at a profit in 2017. Management believes that it is more likely than not that all of the future benefits of deferred tax assets may not be realized and has established a full valuation allowance for the years ended December 31, 2017 and 2016.

The Company files income tax returns in the U.S. Federal jurisdiction and various state and local jurisdictions, and its federal, state and local income tax returns for the tax years beginning in 2012 remain subject to examination. The Company is in the process of filing its federal and state tax returns for the year ended December 31, 2017. Assuming these returns are filed, as of December 31, 2017 and 2016, the Company had \$16,551,784 and \$16,806,291, respectively, of federal net operating loss carryforwards ("NOL's") that may be available to offset future taxable income. The federal net operating loss carryforwards, if not utilized, will expire from 2027 to 2036. As of December 31, 2017 and 2016, the Company had approximately \$9,207,458 and \$9,470,627 of state net operating loss carryforwards available to offset future taxable income. The state NOLs, if not utilized, will expire beginning in 2031.

In accordance with Section 382 of the Internal Revenue code, the usage of the Company's net operating loss carryforwards could be limited in the event of a change in ownership. Based upon a study that analyzed the Company's stock ownership, a change of ownership was deemed to have occurred in 2011. This change of ownership created an annual limitation on the usage of the Company's losses which are available through 2031. A full Section 382 analysis has not been prepared since 2011 and any NOLs arising since 2011 could be subject to limitation under Section 382.

On December 22, 2017, the 2017 Tax Cut and Jobs Act (the "Act") was enacted into law and the new legislation contains several key tax provisions, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the estimated transition tax, re-measuring our U.S. deferred tax assets and liabilities at a 21% rate as well as reassessing the net realizability of our deferred tax assets and liabilities. The one-time transition tax does not generate a deemed distribution as the Company has no foreign deferred

income. The provisional amount related to the re-measurement of our deferred tax balance is a reduction of approximately \$2.4 million. However, since the Company has a full valuation allowance, there is no impact to income tax expense.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected over the next 12 months, we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

We expect to complete our analysis within the measurement period in accordance with SAB 118. We do not expect any material subsequent adjustment to these amounts.

For the years ended December 31, 2017 and 2016, the expected tax expense (benefit) based on the statutory rate is reconciled with the actual tax expense (benefit) as follows:

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|--------------|
| | <u>2017</u> | <u>2016</u> |
| US federal statutory rate | 34.0% | (34.0%) |
| State tax rate, net of federal benefit | 4.0% | (4.0%) |
| Permanent differences: | | |
| Stock based compensation | 4.7% | 2.5% |
| Adjustments to prior deferred tax balances | 0.9% | (0.7%) |
| Other | 1.3% | 0.2% |
| Change in Federal Tax Rate | 622.9% | 0.0% |
| Change in valuation allowance | <u>(667.8%)</u> | <u>36.0%</u> |
| Income tax provision (benefit) | <u>0.0%</u> | <u>0.0%</u> |

13. Subsequent Events

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

Employment Contracts & Separation Agreement

Effective January 1, 2018, the Company entered into employment agreements with Joseph Peters, John Pauly and Daniel Seliga contracts (the "Employment Agreements"). The terms of the Employment Agreement include a term of one years beginning on January 1, 2018 with an extension provision, the titles and positions of Chief Executive Officer, President and Chief Financial Officer, respectively, an initial base salary of \$100,000 per year, subject to certain bonus and severance provisions. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

On January 18, 2018, Mr. Peters and Mr. Seliga were granted options to purchase an aggregate of 1,200,000 shares of common stock under the 2014 Plan at an exercise price of \$0.43 per share for an aggregate grant date value of \$566,232. The options vested over a three-year period and have a term of ten years.

On February 19, 2018, the Company entered into a Separation Agreement with its President, John Pauly. The Separation Agreement rescinded the Employment Agreement entered into effective January 1, 2018 whereby Mr. Pauly was appointed President, reaffirmed his Employment Agreement as Executive Vice President and Mr. Pauly resigned from his employment with the Company effective February 19, 2018. The Separation Agreement also contained certain provisions and terms including a mutual satisfaction and waiver and release of claims.

Issuance of Common Stock to Directors

On January 10, 2018, the Company issued an aggregate of 123,256 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees for the fourth quarter of 2017. The shares had an aggregate grant date value of \$53,000 and were valued at \$0.43 per share, which was higher than the 30 day weighted average closing price for the Company's common stock on the date of grant. Such amount is included in accrued expenses as other liabilities as of December 31, 2017.

Issuance of Common Stock to Executive

On March 14, 2018, the Company issued 50,000 shares of common stock to an executive of the Company for payment of the noncash portion of his bonus for 2017 per the terms of his employment agreement. The shares had a grant date value of \$30,000 and were valued at \$0.60 per share, which was the 30 day weighted average closing price for the Company's common stock on the date of grant. Such amount is included in accrued expenses as other liabilities as of December 31, 2017.

Cashless Exercise of Warrants

On February 1, 2018, the Company issued an aggregate of 537,500 shares of common stock to holders of 1,075,000 warrants that had an expiration date of February 1, 2018. Per the terms of the warrant agreements, any warrants that were not exercised as of the expiration date were to be deemed exercised on a cashless basis based on the closing price on the prior business day. All of the warrants had an exercise price of \$0.25 and the closing price on January 21, 2018 was \$0.50.

On February 26, 2018, the Company issued 274,219 shares of common stock to a holder of 450,000 warrants that had a cashless exercise provision. The warrants had an exercise price of \$0.25 and the closing price on February 25, 2018 was \$0.64.

Extension of Melrose Promissory Note

On March 26, 2018, the Company entered into an amendment to the Promissory Note provided by Melrose Capital Advisors with extended the maturity date of the promissory note from March 31, 2018 to May 31, 2018. The remaining terms of the Melrose Promissory Note were not modified. The Company received a waiver from Kapok, the Company's senior lender, and the majority holder of the Series B convertible preferred stock prior to executing the amendment.

10) Issuer Certification

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Peters, certify that:

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

Date: March 29, 2018 /s/ Joseph B. Peters

Joseph B. Peters
Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Daniel Seliga, certify that:

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

Date: March 29, 2018 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer