

# **HEALTHWAREHOUSE.COM, INC.**

A Delaware Corporation

7107 Industrial Road  
Florence, KY 41042  
(800)748-7001

[www.healthwarehouse.com](http://www.healthwarehouse.com)  
[support@healthwarehouse.com](mailto:support@healthwarehouse.com)

SIC Code: 5912 - Drugstores and Proprietary Stores

## **Amended Annual Report**

**For the year ended December 31, 2019**

As of September 30, 2019, the number of shares outstanding of our Common Stock was 50,081,465.

As of December 31, 2019, the number of shares outstanding of our Common Stock was 50,408,933.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934).

Yes  No

Indicate by check mark if whether the company's shell status has changed since the previous reporting period.

Yes  No

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period.

Yes  No

# 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”). The Company is an active corporation and in good standing in Delaware.

Formerly Ion Networks, Inc., formed on August 5, 1998 as a Delaware company.

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

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

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years? Yes:  No:

### **2) Security Information**

Security information as of December 31, 2019:

Title and Class of Security	Par Value	Trading Symbol	CUSIP	Total Shares Authorized	Total Shares Outstanding	Public Float	Shareholders of Record
Common Stock	\$0.001	HEWA	42227G202	100,000,000	50,408,933	11,648,747	260
Preferred Stock – Series B	\$0.001	Not Applicable	Not Applicable	790,000	517,359	-0-	2
Preferred Stock – Series C	\$0.001	Not Applicable	Not Applicable	10,000	10,000	-0-	3

On April 14, 2017, HEWA filed a Form 15 with the Securities and Exchange Commission terminating the registration of its Common Stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. As of this date, the Company has no plans to reregister the common stock under the Securities Exchange Act of 1934.

On September 26, 2019, the Board of Directors approved and the Company subsequently filed a Certificate of Elimination of the Series A Preferred Stock of Healthwarehouse.com, Inc. with the state of Delaware on October 17, 2019 in order to reduce and eliminate the 200,000 authorized Preferred Shares – A Series. There were no outstanding Preferred Shares – A Series at the time of the elimination.

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:

Describe any trading suspension orders issued by the SEC in the past 12 months: None

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.

### 3) Issuance History

#### A. Changes to the Number of Outstanding Shares

Number of Shares outstanding as of January 1, 2018		Opening Balance							
		Common			47,670,997				
		Preferred Series B			517,359				
		Preferred Series C			10,000				
Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued (\$ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type
1/10/18	New	123,256	Common	\$0.43	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
2/1/18	New	537,500	Common	\$0.25	Yes	Eugene McKenna, Greg Matzel, James Wicklund, Michael McKenna, PJ Burbach, Will Gilbert, Hein Tran	Cashless exercise of stock warrants	Restricted	
2/26/18	New	274,219	Common	\$0.25	Yes	Scott Grejper	Cashless exercise of stock warrants	Restricted	
3/14/18	New	50,000	Common	\$0.60	No	Joseph Peters	Stock Based Compensation	Restricted	
4/18/18	New	86,884	Common	\$0.61	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
7/10/18	New	96,364	Common	\$0.55	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
8/21/18	New	10,000	Common	\$0.09	Yes	Melissa Greenlee	Exercise of stock option	Restricted	
10/17/18	New	169,328	Common	\$0.31	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
1/8/19	New	213,708	Common	\$0.25	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
2/11/19	New	486,381	Common	\$0.26	No	Executives (Peters, Seliga)	Stock Based Compensation	Restricted	
4/2/19	New	155,424	Common	\$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
7/15/19	New	174,344	Common	\$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
7/31/19	New	33,060	Common	\$0.30	No	Pickwick Capital Partners LLC (Doug Greenwood, President, has voting / investment control)	Stock Based Compensation	Restricted	
10/15/19	New	227,468	Common	\$0.23	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	
12/5/19	New	100,000	Common	\$0.09 - \$0.11	Yes	Rob Godwin	Exercise of stock option	Restricted	
Number of Shares outstanding as of December 31, 2019		Ending Balance							
		Common			50,408,933				
		Preferred Series B			517,359				
		Preferred Series C			10,000				

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

Please see Footnote 12 - 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, executives and key employees.

## B. Debt Securities, Including Promissory and Convertible Notes

Date of Note Issuance	Outstanding Balance (\$) as of 12/31/2019	Principal Amount at Issuance (\$)	Interest Accrued (\$) as of 12/31/2019	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
4/7/17	\$ -	\$ 1,000,000	n/a	3/31/2018	None	Kapok Ventures Limited, N.C. Kannan, Director	Repay existing indebtedness
10/31/17	\$ 1,989,678	\$ 2,000,000	\$ 15,420	01/31/2020, as amended	None	Kapok Ventures Limited, N.C. Kannan, Director	Refinance existing loan balance and partially fund purchase of automation equipment
12/6/17	\$ -	\$ 400,000	n/a	5/31/2018, as amended	None	Melrose Capital Advisors, LLC, Timothy E. Reilly, Managing Member	To fund litigation settlement
5/31/18	\$ -	\$ 500,000	n/a	12/31/2019, as amended	None	Melrose Capital Advisors, LLC, Timothy E. Reilly, Managing Member	Refinance existing loan balance and partially fund purchase of automation equipment
10/24/19	\$ 500,000	\$ 500,000	\$ 4,247	12/31/2019	None	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA	Refinance existing loan balance
1/31/20	n/a	\$ 750,000	n/a	2/10/2020	None	Melrose Capital Advisors, LLC, Timothy E. Reilly, Managing Member	Repay existing indebtedness
2/10/20	n/a	\$ 1,675,000	n/a	4/30/2022	Convertible to shares of common stock at \$0.12 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of Millenium Note; and General working capital purposes.

Please see Footnote 6 – Notes Payable and Footnote 12 – Subsequent Events to the Company’s consolidated financial statements for more information.

### 4) Financial Statements

- a) The following financial statements were prepared in accordance with U.S. GAAP.
- b) The financial statements for this reporting period were prepared by Daniel Seliga, Chief Financial Officer of the Company.

See PART II –CONSOLIDATED FINANCIAL STATEMENTS below.

### 5) Issuer’s Business, Products and Service

- A) Description of the Issuer’s business operations:

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 74 Verified Internet Pharmacy Practice Websites (“VIPPS”) accredited by the National Association of Boards of Pharmacy (“NABP”).

- B) The wholly-owned subsidiaries of HealthWarehouse.com, Inc. are Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV. Hocks.com, Inc., ION Holding NV and ION Belgium NV are inactive subsidiaries.
- C) Principal products and services: The Company sells directly to individual consumers who purchase prescription medications and OTC products over the Internet. The Company offers over 6,200 prescription medications and over 6,000 OTC products.

## 6) 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, 2024. See Footnote 8 – Commitments and Contingencies for more details.

## 7) 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, 2019. Please see detailed director biographies contained in the Company’s 2019 Annual Meeting and Proxy Statement dated August 16, 2019 filed with the OTC Markets on February 24, 2020.

Effective January 1, 2018, the Company entered into employment agreements with Mr. Peters and Daniel Seliga appointing them as Chief Executive Officer and Chief Financial Officer, respectively. In addition, Mr. Peters was named President of the Company in February 2018.

Effective September 1, 2018, Blair Magnus and Timothy Reilly were appointed to non-voting observer positions to the Board of Directors as required by agreements with the Company’s lenders. See Note 6 – Notes Payable to the consolidated financial statements for additional information.

The Company held its 2019 Annual Meeting of Stockholders on September 26, 2019 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 2019 fiscal year.

Re-elected to the Board of Directors at the stockholders’ meeting were Joseph Peters, Mark Scott and Jack Britts. In addition, Tim Reilly replaced Dr. Stephen Weiss on the Board.

Holder of the Company’s Series B Preferred shares separately elected Joe Heimbrock, to the designated Series B Preferred seat on the Board.

Effective November 29, 2019, Mr. Scott resigned from the Board of Directors.

Name	Title
Joseph B. Peters	President and Chief Executive Officer, and Director
Daniel J. Seliga	Chief Financial Officer
Tim Reilly	Director, Chairman
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, 2019. 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.

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.

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	Affiliation	Address	Number of shares owned	Share Class	Ownership Percentage of Class Outstanding	Beneficial Ownership
MVI Partners and Joe Heimbrock	Director & >5%	3299 Hughes Court, Taylor Mill, KY 41015	494,913; 1,568,144	Series B Common	96%; 3.1%	13.3% *
Cormag Holdings, LTD and Mark D. Scott	>5%	104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6	5,649,163	Common	11.2%	11.2%
Dellave Holdings, LLC, Melrose Capital Advisors LLC and Tim Reilly	Director & >5%	1085 Gulf of Mexico Drive, Longboat Key, FL 34228	4,229,060	Common	8.4%	8.4%
Dr. Bruce Bedrick	>5%	5375 Monterey Circle #32, Delray Beach, FL 33484	3,990,000	Common	7.9%	7.9%
Lalit Dhadphale	>5%	182 Uccello Drive, Las Vegas, NV 89138	3,022,479	Common	6.0%	6.0%
Jack Britts	Director	2021 Saint Andrews Road, Greensboro, NC 27408	311,694	Common	0.5%	0.6%
Joseph B. Peters	President and Chief Executive Officer, and Director	9085 Braxton Drive, Union, KY 41091	283,463	Common	0.6%	1.3%
Daniel J. Seliga	Chief Financial Officer and Principal Financial Officer	3524 Paxton Avenue, Cincinnati, OH 45208	1,041,354	Common	2.1%	2.1%

\* Each Preferred B share is convertible into 11.97 common shares as of December 31, 2019.

## 8) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past ten 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

Dr. Bruce Bedrick, a beneficial owner of 5% or more of the common stock, was subject to a Final Judgment with the United States District Court, Central District of California, related to a Complaint filed by the Securities and Exchange Commission on March 9, 2017. The Final Judgement was filed by the Securities and Exchange Commission on December 22, 2017.

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, 11<sup>th</sup> Floor  
Address 2: New York, NY 10017  
Phone: (212) 485-5500  
Email: [info@marcumllp.com](mailto:info@marcumllp.com)

On September 26, 2019, at the 2019 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, 2019.

## 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 26, 2020 /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 26, 2020 /s/ Daniel J. Seliga

Daniel J. Seliga  
Chief Financial Officer

**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, 2019 and 2018, the related consolidated statements of operations, changes in stockholders’ deficiency and cash flows for each of the two years in the period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, 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 24, 2020

**HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash	\$ 2,355	\$ 2,934
Restricted cash	1,066,335	425,513
Accounts receivable	118,613	127,861
Inventories	247,768	209,607
Prepaid expenses and other current assets	65,882	104,041
Total current assets	1,500,953	869,956
Property and equipment, net	1,006,299	1,174,814
Total assets	\$ 2,507,252	\$ 2,044,770
<b>Liabilities and Stockholders' Deficiency</b>		
Current liabilities:		
Accounts payable	\$ 808,125	\$ 853,693
Accrued expenses and other current liabilities	1,808,944	1,427,727
Current portion of equipment lease payable	5,736	5,736
Notes payable, net of debt discount of \$0 as of December 31, 2019 and \$12,262 as of December 31, 2018	2,489,678	2,477,416
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, 2019 and December 31, 2018 (aggregate liquidation preference of \$1,000,000)	1,000,000	1,000,000
Total current liabilities	6,112,483	5,764,572
Long term liabilities:		
Capital lease payable - non-current	609	6,557
Total long term liabilities	609	6,557
Total liabilities	6,113,092	5,771,129
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, 2019 and December 31, 2018 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of December 31, 2019 and December 31, 2018 (aggregate liquidation preference of \$6,257,975 and \$5,915,742 as of December 31, 2019 and December 31, 2018, respectively)	517	517
Common stock – par value \$0.001 per share; authorized 100,000,000 shares; 51,588,145 and 50,197,760 shares issued and 50,408,933 and 49,018,548 shares outstanding as of December 31, 2019 and December 31, 2018, respectively	51,587	50,197
Additional paid-in capital	34,242,985	33,682,223
Treasury stock, at cost, 1,179,212 shares as of December 31, 2019 and December 31, 2018	(3,419,715)	(3,419,715)
Accumulated deficit	(34,481,214)	(34,039,581)
Total stockholders' deficiency	(3,605,840)	(3,726,359)
Total liabilities and stockholders' deficiency	\$ 2,507,252	\$ 2,044,770

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

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

	For Years Ended December 31,	
	2019	2018
Net sales	\$ 15,755,577	\$ 15,748,162
Cost of sales	5,394,390	5,526,865
Gross profit	10,361,187	10,221,297
Operating expenses:		
Selling, general and administrative expenses	10,205,484	10,598,867
Impairment of fixed assets	-	170,000
Total Operating Expenses	10,205,484	10,768,867
Income (loss) from operations	155,703	(547,570)
Interest expense	(255,103)	(269,484)
Net loss	(99,400)	(817,054)
Preferred stock:		
Series B convertible preferred stock contractual dividends	(342,233)	(342,233)
Net loss attributable to common stockholders	\$ (441,633)	\$ (1,159,287)
Per share data:		
Net loss – basic & diluted	\$ (0.00)	(0.01)
Series B convertible preferred stock contractual dividends	(0.01)	(0.01)
Net loss attributable to common stockholders - basic & diluted	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding - basic & diluted	49,923,926	48,695,935

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 MONTH ENDED DECEMBER 31, 2019 AND 2018**

	<b>Series B Convertible Preferred Stock</b>		<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Treasury Stock</b>		<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficiency</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>		<b>Shares</b>	<b>Amount</b>		
Balances, January 1, 2018	517,359	\$ 517	48,850,209	\$ 48,850	\$ 33,151,341	1,179,212	\$ (3,419,715)	\$ (32,880,294)	\$ (3,099,301)
Stock-based compensation	-	-	525,832	525	530,804	-	-	-	531,329
Exercise of options into common stock	-	-	10,000	10	890	-	-	-	900
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	(342,233)	(342,233)
Exercise of warrants into common stock	-	-	811,719	812	(812)	-	-	-	-
Net loss	-	-	-	-	-	-	-	(817,054)	(817,054)
Balances, December 31, 2018	<u>517,359</u>	<u>\$ 517</u>	<u>50,197,760</u>	<u>\$ 50,197</u>	<u>\$ 33,682,223</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (34,039,581)</u>	<u>\$ (3,726,359)</u>
Balances, January 1, 2019	517,359	\$ 517	50,197,760	\$ 50,197	\$ 33,682,223	1,179,212	\$ (3,419,715)	\$ (34,039,581)	\$ (3,726,359)
Stock-based compensation	-	-	1,257,325	1,257	550,095	-	-	-	551,352
Exercise of options into common stock	-	-	100,000	100	10,700	-	-	-	10,800
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	(342,233)	(342,233)
Exercise of warrants into common stock	-	-	33,060	33	(33)	-	-	-	-
Net loss	-	-	-	-	-	-	-	(99,400)	(99,400)
Balances, December 31, 2019	<u>517,359</u>	<u>\$ 517</u>	<u>51,588,145</u>	<u>\$ 51,587</u>	<u>\$ 34,242,985</u>	<u>1,179,212</u>	<u>\$ (3,419,715)</u>	<u>\$ (34,481,214)</u>	<u>\$ (3,605,840)</u>

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



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

	<b>For Years Ended</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (99,400)	\$ (817,054)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	163,653	123,862
Stock-based compensation	421,935	626,329
Gain on sale of equipment	(28,979)	-
Loss on disposition of equipment	-	7,807
Gain on extinguishment of accounts payable	52,630	-
Amortization of debt discount	12,262	49,050
Impairment of fixed assets	-	170,000
Changes in operating assets and liabilities:		
Accounts receivable	9,248	(48,831)
Inventories	(38,161)	43,813
Prepaid expenses and other current assets	38,159	4,055
Accounts payable	(98,198)	60,869
Accrued expenses and other current liabilities	168,401	(80,945)
Net cash provided by operating activities	601,550	138,955
<b>Cash flows from investing activities</b>		
Capital expenditures	(1,159)	(1,148,304)
Proceeds from sale of equipment	35,000	
Progress payments deposited with equipment manufacturer	-	440,000
Net cash provided by (used in) investing activities	33,841	(708,304)
<b>Cash flows from financing activities</b>		
Repayment of capital lease	(5,948)	(5,737)
Proceeds from issuance of notes payable	-	649,678
Repayment of notes payable	-	-
Proceeds from offering prior to reaching minimum offering amount	-	-
Proceeds from exercise of stock options	10,800	900
Repayment of notes payable and other advances – related parties	-	(29,102)
Net cash provided by financing activities	4,852	615,739
Net increase in cash	640,243	46,390
Cash and restricted cash - beginning of period	428,447	382,057
Cash and restricted cash - end of period	\$ 1,068,690	\$ 428,447
Cash paid for:		
Interest	\$ 242,840	\$ 269,484
<b>Non-cash investing and financing activities:</b>		
Cashless exercise of warrants into common stock	\$ 33	\$ 812
Acquisition of capital equipment under capital lease	\$ -	\$ 18,030
Accrual of contractual dividends on Series B convertible preferred stock	\$ 342,233	\$ 342,233
Common stock issued to satisfy accrued directors' fees	\$ 212,000	\$ 53,000
Common stock issued to satisfy non-cash executive bonus	\$ 125,000	\$ 30,000
Write-off of fully depreciated asset	\$ -	\$ 13,383

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 a Verified Internet Pharmacy Practice Site ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP"). The Company markets a complete range of generic, brand name, and pet prescription medications as well as over-the-counter ("OTC") medications and products.

#### **2. Going Concern and Management's Liquidity Plans**

The Company has financed its operations primarily through debt and equity financings. Additional borrowings from the Company's lenders during 2018 and 2019 have not been sufficient to satisfy the Company's current obligations. As of December 31, 2019, the Company had a working capital deficiency of \$4,611,530 and a stockholder deficiency of \$3,605,840. The Company has historically incurred significant net losses, including a net loss of \$99,400 for the year ended December 31, 2019. Although the Company generated cash from operating activities of \$601,550 during 2019, that amount was not sufficient to meet its current obligations. 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 meet its payment obligations. There is no assurance that additional financing will be available when needed, that management will be able to obtain financing on terms acceptable to the Company or that the Company will become profitable and generate positive operating cash flow in an amount sufficient to meet its obligations. If the Company is unable to raise or generate sufficient additional funds, it will have to develop and implement a plan to attempt to extend note repayments, attempt to negotiate the preferred stock redemption 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, the net realizable value of inventory, the recoverability and useful lives of long-lived assets and website development costs, the valuation allowance related to deferred tax assets, the valuation of equity instruments, debt discounts and contingencies.

#### *Reclassifications*

Certain accounts in the prior period consolidated financial statements have been reclassified for comparison purposes to conform to the presentation of the current period consolidated financial statements. These reclassifications had no effect on the previously reported net loss.

#### *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, 2019 and 2018, 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. Cash and Restricted Cash, as presented on the consolidated statements of cash flows, consists of \$2,355 and \$1,066,335, as of December 31, 2019, respectively, and \$2,934 and \$425,513 as of December 31, 2018, respectively.

#### *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, 2019 and 2018.

#### *Inventories*

The Company measures inventory at the lower of cost or net realizable value, defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of disposal. The Company performs regular reviews of inventory quantities on hand and evaluates the realizable value of its inventories. 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. The Company adjusts the carrying value of the inventory as necessary with estimated valuation reserves for excess, obsolete, and slow-moving inventory by comparing the individual inventory items to forecasted product demand, taking into account current risks, trends and changes in industry conditions. Obsolescence of inventory items has historically been immaterial. The inventory is valued at the lower of cost or net realizable value with cost determined using the first-in, first-out method.

#### *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. During the year ended December 31, 2018, the Company replaced its existing automation equipment with new automation equipment. The Company recognized a loss of \$170,000 during the year ended December 31, 2018 to reduce the book value of the old equipment to its estimated salvage value. The old equipment was sold for \$35,000 during the year ended December 31, 2019 and the Company recognized a gain on the sale of \$28,979.

### *Website Development Costs*

The Company capitalizes costs associated with the development of its website. During the years ended December 31, 2019 and 2018, the Company did not capitalize any of its website development costs. The Company is amortizing the website development costs on a three-year straight-line basis and incurred amortization expense of \$0 and \$1,053 during the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, unamortized website development costs totaled \$0.

### *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, 2019 and 2018. 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, 2019 and 2018.

#### *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.

Revenue is generated through the sale of over-the-counter medication and prescription medication. The Company also generates revenue by providing fulfillment services of prescription medication to customers. These revenue streams culminate in a single performance obligation to provide the products and the service, and revenue is recorded in an amount that reflects the net consideration that the Company expects to receive for each revenue stream. Prices for the products are based on agreed upon rates with customers and do not include financing components or noncash consideration. The amount of consideration received and revenue recognized is variable for fulfillment services offered to customers and is impacted by volume rebates, which are generally tied to the number of prescriptions filled during the fulfillment process by the Company and settled on a monthly basis.

The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for the product or service. For all customers, revenue is recognized at a point-in-time (at the time the medication is shipped or at the time the fulfillment service is performed) based on the agreed upon terms with each customer when customer has control.

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the Company for fulfillment services are typically prepaid by the customer on a bi-monthly basis.

Taxes assessed by a governmental authority that the Company collects from customers that are both imposed on and concurrent with revenue producing activities (such as sales tax, value-added tax, and excise taxes) are excluded from revenue.

#### *Contract assets and liabilities*

Contract liabilities are recorded for arrangements where the Company has received customer deposits from the customer but has not yet provided the fulfillment services.. As of December 31, 2019, the Company had a contract liability of \$43,453 amount representing refundable customer deposits. Other than accounts receivable, there were no contract assets as December 31, 2019

#### *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 \$1,520,759 and \$1,626,049 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018 were \$332,795 and \$373,638, respectively.

### *Advertising and Marketing Expenses*

The Company expenses all advertising and marketing costs as incurred and were \$1,532,366 and \$1,315,616 for the years ended December 31, 2019 and 2018, 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. During 2018 and continuing into 2019, various states have enacted or are considering enacting legislation to require the collection of sales tax on ecommerce transactions shipped to their state. Such requirements vary by state and are subject to specified de minimis levels and various exclusions, including prescription medication. Compliance with current legislation enacted is not expected to have a material impact on the Company's future operations or results.

### *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.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Numerator		
Net loss attributable to common shareholders	\$ (441,633)	\$ (1,159,287)
Denominator:		
Weighted-average common shares, basic and diluted	<u>49,923,926</u>	<u>48,695,935</u>
Net income (loss) per common share:		
Basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

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:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Options	2,694,395	2,954,845
Warrants	473,367	4,866,151
Series B Convertible Preferred Stock	<u>6,192,788</u>	<u>6,192,788</u>
Total potentially dilutive shares	<u><u>9,360,550</u></u>	<u><u>14,013,784</u></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, directors and non-employees, the award is measured on the grant 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, 2019 and 2018 using the applicable classification criteria enumerated under U.S. GAAP and determined that the common stock purchase warrants contain fixed settlement provisions, therefore they have been classified as equity.

#### *Recently Issued Accounting Pronouncements*

In May 2014, FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606), as modified by subsequently issued ASUs 2015-14, 2016-08, 2016-10, 2016-12 and 2016-20 (collectively ASU 2014-09). ASU 2014-09 superseded the revenue recognition requirements in ASC (Topic 605) Revenue Recognition, and most industry specific guidance. This ASU also supersedes some cost guidance included in ASC 605-35 Revenue Recognition Construction Type and Production Type Contracts. Similar to the previous guidance, the Company makes significant estimates related to variable consideration at the point of sale, including chargebacks, rebates, product returns, and other discounts and allowances. Revenue is recognized at a point in time upon the transfer of control of the Company's products, which occurs upon delivery for substantially all of the Company's sales. The Company adopted the standard effective January 1, 2019, using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the year ended December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class

of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This update and related amendments are effective for nonpublic entities for annual periods beginning after December 15, 2020.

In June 2018, the FASB issued ASU 2018-07, Stock Compensation (Topic 718); Improvements to Non-employer Share-Based Payment Accounting. The amendment aligns the accounting for share based payments issued to employees and non-employees. The Company’s adoptions of this standard on January 1, 2019 did not have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, “Codification Improvements” (“ASU 2018-09”). These amendments provide clarifications and corrections to certain ASC subtopics including the following: Income Statement - Reporting Comprehensive Income – Overall (Topic 220-10), Debt - Modifications and Extinguishments (Topic 470-50), Distinguishing Liabilities from Equity – Overall (Topic 480-10), Compensation - Stock Compensation - Income Taxes (Topic 718-740), Business Combinations - Income Taxes (Topic 805-740), Derivatives and Hedging – Overall (Topic 815- 10), and Fair Value Measurement – Overall (Topic 820-10). The majority of the amendments in ASU 2018-09 were effective in annual periods beginning after December 15, 2018. The Company’s adoptions of this standard on January 1, 2019 did not have a material impact on the consolidated financial statements.

In April 2019, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 will replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In connection with recognizing credit losses on receivables and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model. This standard is effective for annual periods beginning after December 15, 2022, with early adoption permitted. The adoption of this standard will be through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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

#### 4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	<b>December 31,</b>		<b>Useful Life</b>
	<b>2019</b>	<b>2018</b>	<b>(Years)</b>
Computer Software	\$ 230,299	\$ 230,299	5 years
Equipment	1,257,456	1,699,714	10 years
Office Furniture and Equipment	103,602	102,443	7 years
Computer Hardware	50,998	50,998	5 years
Leasehold Improvements	322,973	322,973	(a)
Total	1,965,328	2,406,427	
Less: Accumulated Depreciation	(959,029)	(1,231,613)	
Property and Equipment, Net	<u>\$ 1,006,299</u>	<u>\$ 1,174,814</u>	

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

Depreciation expense for the above assets for the years ended December 31, 2019 and 2018 was \$163,653 and \$122,809, respectively.



During the year ended December 31, 2019, the Company sold equipment for \$35,000 and recognized a gain on the sale of \$28,979 which was included in selling, general and administrative expenses. The Company recognized an impairment loss of \$170,000 related to the equipment during the year ended December 31, 2018.

## 5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Salaries and Benefits	\$ 166,002	\$ 240,264
Dividend Payable	1,368,932	1,026,699
Accounting	95,980	35,000
Accrued Interest	28,435	28,436
Accrued Rent	12,705	6,169
Sales Tax Payable	24,909	162
Advertising	20,000	-
Accrued Director Fees	48,583	53,000
Deferred Revenue	3,621	4,399
Other	39,777	33,598
	<u>\$ 1,808,944</u>	<u>\$ 1,427,727</u>

## 6. Notes Payable

Notes payable consisted of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Millenium Note	\$ 500,000	\$ -
Melrose Note	\$ -	\$ 500,000
Kapok Promissory Note	1,989,678	1,989,678
Less debt discount	-	(12,262)
Total debt	<u>2,489,678</u>	<u>2,477,416</u>
Less current portion	<u>(2,489,678)</u>	<u>(2,477,416)</u>
Long-term debt, less current portion	<u>\$ -</u>	<u>\$ -</u>

### *Kapok Promissory Note*

The Company is a party to a promissory note (the "Kapok Promissory Note" or "Senior Note") and a security agreement (the "Kapok Security Agreement") with Kapok Ventures Limited, which commenced in 2017. Under the terms of the Kapok Promissory Note, the Company may borrow up to an aggregate of \$2,000,000 (as amended) from Kapok. 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 (9.0% at December 31, 2019). During the year ended December 31, 2018, Kapok advanced \$549,678 to the Company. 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, through the January 31, 2020 maturity date. See Section 12 – Subsequent Events.

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 expired on January 31, 2020. See Section 12 – Subsequent Events.

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 proceeds from the Kapok Promissory Note were used to partially repay existing indebtedness and to partially 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).

As part of a consent provided by Kapok related to the extension of the maturity date of the Melrose Promissory Note, the Company granted Kapok, effective September 1, 2018, the right to appoint a representative to a non-voting observer position to the Board of Directors until the full balance of the Kapok Promissory Note is repaid. The Company is required to provide compensation of \$1,000 per month to the Kapok representative.

#### *Melrose Promissory Note*

The Company is a party to a promissory note (the "Melrose Promissory Note") and a security agreement (the "Melrose Security Agreement") with Melrose Capital Advisors, LLC. Under the terms of the Melrose Promissory Note, the Company borrowed an aggregate of \$500,000 from Melrose (the "Melrose Loan") as of December 31, 2018. 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. During the year ended December 31, 2018, Melrose advanced \$100,000 to the Company. 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 were repaid on October 24, 2019.

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 a portion of the settlement amount related to the Taft litigation and to partially fund the acquisition of pharmacy automation equipment.

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 to allow for the Melrose Promissory Note. The waiver related to the Melrose Promissory Note expired on December 31, 2019.

As part of an agreement related to the extension of the maturity date of the Melrose Promissory Note, the Company granted Melrose, effective September 1, 2018, the right to appoint a representative to a non-voting observer position to the Board of Directors until August 31, 2019. The Company is required to provide compensation of \$1,000 per month to the Melrose representative. Following the repayment of the Melrose Promissory Note on October 24, 2019, Melrose no longer had the right to appoint a representative to the Board of Directors and the compensation no longer is required.

#### *Millennium Promissory Note*

Effective October 24, 2019, the Company executed a promissory note (the "Millennium Promissory Note") and a security agreement (the "Millennium Security Agreement") (collectively, the Millennium Promissory Note and the Millennium Security Agreement, the "Millennium Loan Agreements") with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. Under the terms of the Millennium Promissory Note, the Company borrowed an aggregate of \$500,000 from Millennium (the "Millennium Loan"). The Millennium 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 Millennium 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 Millennium Promissory Note is payable on December 31, 2019. See Section 12 – Subsequent Events.

Pursuant to the Millennium 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 Millennium Promissory Note. The Millennium security interest is junior to the Kapok security interest. The Millennium Loan Agreements contain customary negative covenants restricting the Company's ability to take certain actions without Millennium'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 Millennium 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 Millennium Promissory Note, were used to repay the outstanding balance of the Melrose Promissory Note held by Melrose Capital Advisors, LLC. Both Melrose Capital Advisors, LLC and the Timothy E. Reilly IRA are owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium transaction is a related party transaction.

## **7. 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*

During the years ended December 31, 2019 and 2018, the Company issued 486,381 and 50,000 shares of common stock, respectively, to executives of the Company for payment of the noncash portion of their annual bonuses per the terms of their employment agreements. The shares had an aggregate grant date value of \$125,000 and \$30,000 for the years ended December 31, 2019 and 2018, respectively. Such amounts were included in accrued expenses and other current liabilities as of December 31, 2018 and 2017. The shares were valued at the 30-day weighted average closing prices for the Company's common stock on the dates of grant which ranged between \$0.26 and \$0.60 per share.

During the years ended December 31, 2019 and 2018, the Company issued an aggregate of 770,944 and 475,832 shares of common stock, respectively, to directors of the Company for payment of their accrued noncash portion of their director's fees. The shares had an aggregate grant date value of \$212,000 for the years ended December 31, 2019 and 2018, of which \$53,000 had been accrued at December 31, 2018 and 2017. The shares were valued at the closing prices for the Company's common stock on the dates of grant which ranged between \$0.23 and \$0.61 per share.

Stock-based compensation expense related to common stock issued was recorded in the consolidated statements of operations as a component of selling, general and administrative expenses and totaled \$207,583 and \$337,000 for the years ended December 31, 2019 and 2018, respectively.

## ***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, 2018, 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, 2018. On September 26, 2019, the Board of Directors approved and the Company subsequently filed a Certificate of Elimination of the Series A Preferred Stock of Healthwarehouse.com, Inc. with the state of Delaware on October 17, 2019 in order to reduce and eliminate the 200,000 authorized Preferred Shares – A Series. There were no outstanding Series A Preferred Shares at the time of the elimination.

### ***Series B Preferred Stock***

The Company has designated 790,000 of the 1,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock (“Series B Preferred Stock”). On July 16, 2019, the Board of Directors approved and the Company subsequently filed a Certificate of Increase of Series B Preferred Stock of Healthwarehouse.com, Inc. with the state of Delaware in order to increase in the number of authorized shares from 625,000 shares to 790,000 shares. 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. MVI Partners, LLC owns a majority of the outstanding shares of the Series B Preferred Stock. Joe Heimbrock is the managing partner of MVI Partners, LLC and serves as a director appointed by the Series B Preferred Stock shareholders.

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, 2019 and 2018, Series B holders were entitled to convert into 11.97 shares 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 beneficial conversion feature. As of December 31, 2019, 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, 2019 and 2018. 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 years ended December 31, 2019 and 2018, the Company had accrued contractual dividends of \$1,368,932 and \$1,026,699, respectively, related to the Series B Preferred Stock.

### ***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, 2019 in the Company's consolidated balance sheet.

### ***Incentive Compensation / Stock Option Plans***

The Company had sponsored 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 terminated effective May 15, 2019 per the terms of the Plan documents.

The 2009 Plan imposed 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.

Following the approval of the Board of Directors and stockholders of record as of October 17, 2018, the Company modified certain terms of the 2014 Plan including an increase in the total of shares of common stock authorized and available for issuance pursuant to awards granted under the 2014 Plan to 12,000,000 and an increase in the maximum number of shares that may be awarded that are not subject to performance targets to 6,000,000.

### ***Stock Options***

#### ***Grants***

During the year ended December 31, 2019, the Company granted options to executives and key employees of the Company to purchase an aggregate of 1,250,000 shares of common stock under a previously approved plan at exercise price of \$0.32 per share for an aggregate grant date value of \$415,423. The options vest over a three-year period and have a term of ten

years. The options granted included options to purchase an aggregate of 1,200,000 shares of common stock that were issued to replace options previously issued to key employees during 2018. In accounting for the modification of the options, it was determined that the difference in fair value was immaterial.

During the year ended December 31, 2018, the Company granted options to executives and key employees of the Company to purchase an aggregate of 2,800,000 shares of common stock under a previously approved plan at exercise price ranging between \$0.36 and \$0.61 per share for an aggregate grant date value of \$1,301,983. The options vest over a three-year period and have a term of ten years. The options granted included options to purchase an aggregate of 750,000 shares of common stock that were issued to replace options previously issued to key employees during the same year.

#### *Exercise*

During the year ended December 31, 2019, the Company received proceeds of \$10,800 from the exercise of options to purchase 100,000 shares of common stock. The options had exercise prices ranging between \$0.09 and \$0.11 per share.

During the year ended December 31, 2018, the Company received proceeds of \$900 from the exercise of options to purchase 10,000 shares of common stock. The options had exercise prices of \$0.09 per share.

The aggregate intrinsic value of the options exercised was \$7,200 and \$3,100 for the years ended December 31, 2019 and 2018, 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% per year for options granted during the years ended December 31, 2019 and 2018, respectively.

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

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Risk-free interest rate	2.45%	2.49% to 2.89%
Expected dividend yield	0.00%	0.00%
Expected volatility	183.0%	185.0% to 191.0%
Weighted average expected life (contractual term) in years	6.0	6.0

Stock-based compensation expense related to stock options was recorded in selling, general and administrative expenses in the consolidated statements of operations and totaled \$214,353 and \$289,329 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, stock-based compensation expense related to stock options of \$430,614 remains unamortized which is being amortized over the weighted average remaining period of 2.1 years.

### Summary

A summary of the stock option activity during the years ended December 31, 2019 and 2018 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2018	1,021,345	\$ 0.59		
Granted *	2,800,000	0.47		
Exercised	(10,000)	0.09		
Forfeited *	(856,500)	0.61		
Outstanding, December 31, 2018	2,954,845	\$ 0.47		
Granted **	1,250,000	0.32		
Exercised	(100,000)	0.11		
Forfeited **	(1,410,450)	0.47		
Outstanding, December 31, 2019	<u>2,694,395</u>	<u>\$ 0.41</u>	<u>8.0</u>	<u>\$ 38,517</u>
Exercisable, December 31, 2019	<u>769,395</u>	<u>\$ 0.60</u>	<u>5.4</u>	<u>\$ 38,517</u>

\* Includes 750,000 options reissued to key employees

\*\* Includes 1,200,000 options reissued to executives

The following table presents information related to stock options outstanding and exercisable at December 31, 2019:

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	491,667	\$ 0.10	5.5	491,667
\$0.22 - \$0.35	0.33	2,082,728	0.27	7.2	157,728
\$0.53 - \$1.60	0.87	66,000	0.87	3.7	66,000
\$4.10 - \$6.99	5.85	54,000	5.85	2.0	54,000
\$0.09 - \$6.99	\$ 0.41	<u>2,694,395</u>	\$ 0.60	5.4	<u>769,395</u>

### Warrants

#### Valuation

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

#### Exercise

During the year ended December 31, 2019, the Company issued an aggregate of 33,060 shares of common stock to holders of 66,120 warrants upon exercise on a cashless basis. The warrants had an exercise price of \$0.15 per share. The aggregate intrinsic value of the warrants exercised was \$9,918 for the year ended December 31, 2019.

During the year ended December 31, 2018, the Company issued an aggregate of 811,719 shares of common stock to holders of 1,525,000 warrants upon exercise on a cashless basis. The warrants had an exercise price of \$0.25 per share. The aggregate intrinsic value of the warrants exercised was \$444,250 for the year ended December 31, 2018.

As of December 31, 2019 and 2018, 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, 2019 and 2018, respectively, is presented below:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life In Years</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, January 1, 2018	6,541,151	\$ 0.31		
Granted	-	-		
Exercised	(1,525,000)	0.25		
Forfeited	(150,000)	0.35		
Outstanding, December 31, 2018	4,866,151	\$ 0.33		
Granted	-	-		
Exercised	(66,120)	0.15		
Forfeited	(4,326,664)	0.30		
Outstanding, December 31, 2019	<u>473,367</u>	<u>\$ 0.66</u>	<u>2.5</u>	<u>\$ -</u>
Exercisable, December 31, 2019	<u>473,367</u>	<u>\$ 0.66</u>	<u>2.5</u>	<u>\$ -</u>

During the year ended December 31, 2019, 4,326,664 warrants issued to investors in 2014 expired

The following table presents information related to stock warrants at December 31, 2019:

<b>Range of Exercise Price</b>	<b>Warrants Outstanding</b>		<b>Warrants Exercisable</b>		
	<b>Weighted Average Exercise Price</b>	<b>Outstanding Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life In Years</b>	<b>Exercisable Number of Warrants</b>
\$0.15 - \$0.25	\$ 0.24	110,000	\$ 0.24	1.4	110,000
\$0.30 - \$0.35	0.41	333,367	0.41	2.9	333,367
\$4.95	4.95	30,000	4.95	2.8	30,000
\$0.15 - \$4.95	<u>\$ 0.66</u>	<u>473,367</u>	<u>\$ 0.66</u>	<u>2.5</u>	<u>473,367</u>

## 8. Commitments and Contingent Liabilities

### *Capital Lease*

On January 11, 2018, the Company entered a three-year lease agreement related to a forklift. The terms of the lease agreement require monthly payments of \$542 with the option to purchase the forklift on the lease termination date for \$1. The transaction was recognized as a fixed asset acquisition and capital lease obligation of \$18,030.

### *Operating Leases*



The Company is a party to a lease agreement for office and storage space for its headquarters in Florence, Kentucky. On July 30, 2018, the Company entered into an amendment of the lease agreement which extended the lease for an additional five years to December 31, 2024. The amended monthly lease rate will range between \$7,955 and \$9,498.

The Company accounts for rent expense using the straight-line method of accounting, deferring the difference between actual rent due and the straight-line amount. Deferred rent payable of \$12,705 and \$6,169 as of December 31, 2019 and 2018, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

The aggregate future minimum lease payments for operating leases, excluding renewal periods, and capital leases as of December 31, 2019 were as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2020	99,793	6,508
2021	102,787	-
2022	105,871	-
Thereafter	<u>221,365</u>	<u>-</u>
Total	<u>\$ 529,816</u>	<u>\$ 6,508</u>
Less: Amount representing interest		<u>(190)</u>
Present value of minimum lease payments		<u>\$ 6,318</u>

During the years ended December 31, 2019 and 2018, the Company recorded aggregate rent expense of \$139,494 and \$120,460, respectively.

### ***Employment Agreement***

Effective January 1, 2018, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts (the “Employment Agreements”). The terms of the Employment Agreement include a term of one year beginning on January 1, 2018 with an extension provision allowing for automatic one-year extensions, the titles and positions of Chief Executive Officer 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.

### ***Litigation***

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

On April 9, 2018, the Company and its President and Chief Executive Officer were named in a legal complaint filed in the United States District Court by a former employee alleging, among other items, violation of the Fair Labor Standards Act, breach of contract and unjust enrichment related to nonpayment of commissions and overtime compensation and requesting a judgment in excess of \$500,000. The suit is in the early stages and, as such, any potential liability cannot be determined at this time. The Company’s most recent answer to the complaint asserted numerous counterclaims against the former employee for damages and injunctive relief. Management believes that the Plaintiff’s claims are groundless and the Company intends to contest this matter vigorously.

On March 6, 2019, the Company was named in a class action complaint filed against the Company in the United States District Court by an individual alleging, among other items, violation of the Americans with Disabilities Act, claiming the Company’s website is not fully accessible and independently usable to a visually impaired and legally blind individual. On

August 13, 2019, the Company entered into a settlement agreement with the individual. The settlement amount, which was not material, was included in the selling, general and administrative expenses during the year ended December 31, 2019.

## 9. 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, 2019, three suppliers represented 35%, 23% and 21% of total inventory purchases. During the year ended December 31, 2018, three suppliers represented 29%, 25% and 21% of total inventory purchases.

Two vendors represented 23% and 14% of the accounts payable balance as of December 31, 2019. One vendor represented 23% of the accounts payable balance at December 31, 2018.

## 10. Related Party Transactions

Effective October 24, 2019, the Company entered into a transaction with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA whereby the Company borrowed an aggregate of \$500,000 from Millennium (the "Millennium Loan"). The proceeds from the Millennium Promissory Note, were used to repay the outstanding balance of the Melrose Promissory Note held by Melrose Capital Advisors, LLC. Both Melrose Capital Advisors, LLC and the Timothy E. Reilly IRA are owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company’s outstanding shares of common stock. As such, the Millennium transaction is a related party transaction. See Note 6 – Notes Payable and Note 12 – Subsequent Events.

## 11. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2019 and 2018 was as follows:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Federal:		
Current	\$ -	\$ 7,642
Deferred	31,448	(109,066)
State and local:		
Current	-	-
Deferred	-	56,423
	31,448	(45,001)
Change in valuation allowance	(31,448)	52,643
Income tax provision (benefit)	<u>\$ -</u>	<u>\$ 7,642</u>

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,013,364	\$ 4,012,472
Stock-based compensation	469,179	469,178
Inventory reserves	7,039	7,040
Deferred Revenue	905	1,100
Deferred Rent	3,176	1,542
Total deferred tax assets	4,493,663	4,491,332
Valuation allowance	(4,424,877)	(4,456,325)
Deferred tax assets, net of valuation allowance	68,786	35,007
Deferred tax liabilities:		
Property and equipment	(68,786)	(35,007)
Web development	-	-
Deferred tax liabilities	\$ (68,786)	\$ (35,007)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>
Change in valuation allowance	<u>\$ (31,448)</u>	<u>\$ 52,643</u>

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. 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, 2019 and 2018.

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 2015 remain subject to examination. The Company does not currently have any Federal or State audit examinations in process by taxing authorities. The Company is in the process of filing its federal and state tax returns for the year ended December 31, 2019. When these returns are filed for the year ended December 31, 2019, the Company will have \$17,210,209 and \$17,188,600 of federal net operating loss carryforwards that may be available to offset future taxable income as of December 31, 2019 and 2018, respectively. The federal net operating loss carryforwards generated prior to 2018, if not utilized, will expire from 2028 to 2037. The federal net operating loss carryforwards generated in 2018 will carryforward indefinitely. As of December 31, 2019 and 2018, the Company had approximately \$9,980,505 and \$9,968,160 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.

For the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
US federal statutory rate	(21.0%)	(21.0%)
State tax rate, net of federal benefit	(4.0%)	(4.0%)
Permanent differences:		
Stock based compensation	53.9%	8.9%
Other	2.7%	(0.1%)
Change in State Tax Rate	0.0%	10.7%
Change in valuation allowance	<u>(31.6%)</u>	<u>6.4%</u>
Income tax provision (benefit)	<u>0.0%</u>	<u>0.9%</u>

## 12. 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.

### *Issuance of Common Stock to Directors*

On January 8, 2020, the Company issued an aggregate of 279,213 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 2019. The shares had an aggregate grant date value of \$48,583 and were valued at \$0.17 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. Such amount is included in accrued expenses as other liabilities as of December 31, 2019.

### *Issuance of Options to Employees and Executives*

On February 1, 2020, the Company granted stock options to purchase an aggregate of 2,650,000 shares of common stock under the 2014 Plan to key employees and executives of the Company as recognition of their contributions to the Company. The options had an exercise price of \$0.12 per share which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options vest over a three-year period and have a term of ten years. The options had an aggregate grant date value of \$309,870.

### *Melrose Unsecured Note*

On January 31, 2020, the Company executed an unsecured promissory note with Melrose Capital Advisors, LLC (the "Melrose Unsecured Note") whereby the Company borrowed \$750,000. The Melrose Unsecured Note bears interest on the unpaid principal balance at a fixed rate equal to 10% per annum. The principal amount and all unpaid accrued interest on the Melrose Unsecured Note were due on February 10, 2020. The proceeds of the Melrose Unsecured Note were used to repay a portion of the Kapok Promissory Note. The Melrose Unsecured Note was repaid in February 2020 in connection with the issuance of convertible notes detailed below. Melrose Capital Advisors, LLC is controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Melrose transaction is a related party transaction. See Amendment to Kapok Promissory Note and Convertible Promissory Notes sections below.

### *Amendment to Kapok Promissory Note*

On January 31, 2020, the Company executed an amendment to Kapok Promissory Note (the "Amendment"). Per the terms of the Amendment, (a) the principal amount of the Kapok Promissory Note was reduced from \$2,000,000 to \$1,000,000 and (2) the Maturity Date was extended from January 31, 2020 to June 30, 2020. The remaining terms of the Kapok Promissory Note were unchanged. As part of the transaction, the outstanding principal balance of the Kapok Loan was

reduced by \$1,000,000. The Company utilized the proceeds of the Melrose Unsecured Note and excess cash balances to repay \$1,000,000 of the Kapok Loan balance. Following the repayment, the Kapok Loan had an outstanding balance of \$989,678.

#### *Convertible Promissory Notes*

On February 10, 2020, the Company executed a convertible note purchase agreement (the "Convertible Purchase Agreement"), convertible secured promissory notes (the "Convertible Notes") and a security agreement (the "Convertible Security Agreement") (collectively the "Convertible Note Agreements"). Under the terms of the Convertible Notes, the Company borrowed an aggregate of \$1,675,000 from a group of six investors. The Convertible Notes bear interest on the unpaid principal balance until the full amount of principal has been paid or converted to common shares at a fixed rate equal to 6% per annum. Under the terms of the Convertible Notes, the Company has agreed to make quarterly payments of accrued interest on the last day of every calendar quarter beginning on March 31, 2020. The principal amount and all unpaid accrued interest on the Convertible Note is payable on April 30, 2022.

At any time prior to the maturity date, each purchaser may convert their Convertible Note balance, in whole or in part, into shares of the Company's common stock at a conversion rate of \$0.12 per share (the "Conversion Rate"). The Company may initiate the conversion of the Convertible Notes at any time prior to the maturity date in the event that the 60-day weighted average price of a share of the Company's common stock as reported on OTC Markets exceeds \$0.30 per share. The Conversion Price is subject to adjustment in the event of future dilutive transactions.

Pursuant to the Convertible 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 Convertible Notes. The Convertible Note security interest is junior to up to \$1,000,000 of senior security interests, currently the Kapok security interest. The Convertible Loan Agreements contain customary negative covenants restricting the Company's ability to take certain actions without the consent of the agent for the Convertible Note holders, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. The repayment of the Convertible Promissory Notes 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 Company received cash proceeds of \$1,175,000, including \$500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. The cash proceeds from the Convertible Promissory Note were used to repay the outstanding balance of the Melrose Unsecured Note of \$750,000. In addition, the Company exchanged the Millennium Promissory Note with an outstanding balance of \$500,000 for a like amount of Convertible Notes. Both Melrose Capital Advisors, LLC and the Timothy E. Reilly IRA are owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium investment in the Convertible Notes transaction is a related party transaction.

The Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Convertible Note transaction. As part of the agreement to extend the waiver of the debt limitation to April 30, 2022 and increase the limitation on indebtedness from \$2,500,000 to \$3,000,000, the Series B Preferred shareholders required the issuance of warrants to purchase 500,000 shares of common stock at an exercise price equal to the 30-day weighted average closing price for the Company's common stock on the date of issuance. The warrants were issued on March 5, 2020 at an exercise price of \$0.11 per share.