HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

7107 Industrial Road
Florence, KY 41042
(800)748-7001
www.healthwarehouse.com
support@healthwarehouse.com

SIC Code: 5912 - Drugstores and Proprietary Stores

Annual Report

For the year ended December 31, 2023

As of December 31, 2023, the number of shares outstanding of our Common Stock was 54,683,768.

As of September 30, 2023, the number of shares outstanding of our Common Stock was 54,483,768.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934).
Yes ☐ No ☒

Indicate by check mark if whether the company's shell status has changed since the previous reporting period.
Yes ☐ No ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period.
Yes ☐ No ☒

We previously were a shell company, therefore the exemption offered pursuant to Rule 144 is not available. Anyone who purchased securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction.

HEALTHWAREHOUSE.COM, INC.

Annual Report

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PART A – GENERAL COMPANY INFORMATION

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

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

Formerly Ion Networks, Inc., formed on August 5, 1998.
Name changed to Clacendix, Inc. on January 3, 2008.
Name changed to HealthWarehouse.com, Inc. on July 31, 2009.

2) Address of issuer's principal executive offices.

7107 Industrial Road, Florence, KY 41042
Phone: (800)748-7001
www.healthwarehouse.com; www.healthwarehouse.pharmacy

Investor Relations contact: Daniel Seliga, CFO, dseliga@healthwarehouse.com, (800)748-7001

Check box if principal executive office and the principal place of business are the same address ☒

3) Jurisdiction and date of issuer's incorporation

The Company is a Delaware corporation, organized on August 5, 1998. The Company is active and in good standing.

PART B – SHARE STRUCTURE

4) Title and class of securities outstanding.

Title and Class of Security	Trading Symbol	CUSIP
Common Stock	HEWA	42227G202
Series B Convertible Preferred Stock	Not Applicable	Not Applicable
Series C Convertible Redeemable Preferred Stock	Not Applicable	Not Applicable

5) Par or stated value and description of security.

Title and Class of Security	Par Value	Description
Common Stock	$0.001	One (1) voting right per share; eligible for dividends if and when declared; no preemptive rights.
Convertible Preferred Stock – Series B	$0.001	Issued at $9.45 per share in November 2010. Voting rights equal to one vote for each common share equivalent. Liquidation preference equal to $7,626,907 at December 31, 2023, which is the sum of the original purchase price of $3,451,754, the value of shares issued as payment-in-kind dividends of $1,437,289 and accrued dividends of $2,737,864. Receives preferred dividends equal to 7% of all outstanding shares in either cash or payment-in-kind. Convertible at option of holder at any time at the dilution adjusted conversion price ($0.64 per share as of December 31, 2023).
Convertible redeemable Preferred Stock – Series C	$0.001	Issued at $100 per share on October 11, 2011. One (1) voting right per share. Liquidation value of $650,000 on December 31, 2023. The holder can exercise redemption rights at $100 per share after October 29, 2022. Convertible at option of holder into common shares at a conversion price of 80% of the 30-day weighted average closing share price (limited to 2,500 shares per quarter). Mandatory conversion if 60-day weighted average closing share price of the common stock is $0.45 per share or above and minimum 60-day trading volume of at least 500,000 shares.

6) Number of shares or total amount of the securities outstanding for each class of securities authorized.

Security information as of (a) December 31, 2023 and (b) December 31, 2022:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	(a)175,000,000 (b)175,000,000	(a) 54,683,768 (b) 54,060,240	(a) 13,709,183 (b) 13,916,728	(a) 178 (b) 182	(a) 244 (b) 249
Preferred Stock – Series B	(a) 790,000 (b) 790,000	(a) 517,359 (b) 517,359	(a) -0- (b) -0-	(a) 2 (b) 2	(a) 2 (b) 2
Preferred Stock – Series C	(a) 10,000 (b) 10,000	(a) 6,500 (b) 6,500	(a) -0- (b) -0-	(a) 3 (b) 3	(a) 3 (b) 3

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

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders approved an amendment to the Corporation's Certificate of Incorporation to increase the number of authorized shares of common stock that may be issued to 125,000,000, which was effective on October 9, 2020. At the meeting, the stockholders also approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

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

7) 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: X No:
Regulatory authority: Securities and Exchange Commission

PART C – BUSINESS INFORMATION

8) Description of Issuer's business operations:

HealthWarehouse.com, Inc. (the "Company"), a Delaware corporation, is an online 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, a market which is expected to continue to grow. The Company sells directly to individual consumers who purchase prescription medications and over-the-counter ("OTC") products over the Internet. HealthWarehouse.com is currently 1 of 86 National Association of Boards of Pharmacy ("NABP") accredited digital pharmacies. In addition, the Company also provides fulfillment of prescription medication, medical devices and other services to customers of other healthcare providers including manufacturers and telemedicine and online services companies ("Partner Services"). The Company's primary SIC Code is 5912 - Drugstores and Proprietary Stores. The Company's fiscal year end is December 31.

We process all orders from our distribution center in Florence, Kentucky, 15 miles south of Cincinnati, Ohio. Processing from this location allows us to reach up to 80% of the U.S. population by standard ground shipping in two days from shipment date. To maintain high customer satisfaction ratings and quality control over our entire process, we avoid drop shipping orders. Due to the relatively short lead time required to fill orders for our products, usually 24 to 48 hours, order backlog has not proven material to our business.

Our customer support representatives operate from our call center in Florence, Kentucky, available 8 a.m. to 8 p.m. Eastern Time, Monday through Friday, and 9 a.m. to 5 p.m. Eastern Time on Saturday. Customers can contact us via e-mail, online chat, fax, and telephone, plus our online Help Center outlines store policies and provides answers to customers' frequently asked questions.

Historical Background

In March 2007, Hwareh.com, Inc. ("Old HW"), a Delaware corporation formerly named HealthWarehouse.com, Inc., was incorporated to carry on the business of selling OTC products. In November 2007, we began to develop the proprietary software necessary for our business, and in February 2008, we successfully launched our website (www.healthwarehouse.com) running on our own proprietary software. In March 2008, as part of our expansion into prescription drugs, we completed construction of a full-service licensed pharmacy within our warehouse in Loveland, Ohio. This pharmacy passed inspection by the Ohio State Pharmacy Board in April 2008. On August 1, 2011, the Company transferred its operations to the current facility located in Florence, Kentucky.

In August 2009, Old HW completed a reverse merger into Clacendix, Inc., a shell company formerly known as Ion Networks, Inc., a Delaware corporation formed on August 5, 1998. As of the date of the reverse merger, the Company no longer operated as a shell company, changed its corporate name to HealthWarehouse.com, Inc. and changed the name of its subsidiary to Hwareh.com, Inc. The Company has a fiscal year end date of December 31.

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.

Reverse stock split

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

Government Regulation

Federal and state laws and regulations govern many aspects of our business and are specific to pharmacies and the sale of OTC drugs. Our pharmacy passed inspection by the Kentucky Board of Pharmacy and we are presently licensed as a pharmacy authorized to dispense to patients in 50 states and the District of Columbia. We ship our non-prescription products to all 50 states, U.S. Territories, and APO/FPO military and embassy addresses.

We believe the Company is in substantial compliance with all existing legal and regulatory requirements material to the operation of our business and have standard operating procedures and controls in place designed to assist in ensuring compliance with existing contractual requirements and state and federal law. We diligently monitor and audit our adherence to these procedures and controls and take prompt corrective and disciplinary action when appropriate. However, we cannot predict how courts or regulatory agencies may interpret existing laws or regulations or what additional federal or state legislation or regulatory initiatives may be enacted in the future regarding healthcare or the pharmacy industry, and the application of complex standards to the operation of our business creates areas of uncertainty.

In addition, although we presently do not accept insurance reimbursement nor do we participate in federal and state programs such as Medicare and Medicaid, this may change in the future. If in the future we do accept reimbursement from commercial or governmental payors, we would be subject to extensive government regulation including numerous state and federal laws and corresponding regulations directed at preventing fraud and abuse and regulating reimbursement.

Among the federal and state laws and regulations that currently affect or may reasonably affect in the future aspects of our business are the following:

Regulation of Our Pharmacy Operations

The practice of pharmacy is generally regulated at the state level by state boards of pharmacy. Our pharmacy must be licensed in the state in which it is located. In some states, regulations require compliance with standards promulgated by the United States Pharmacopeia (USP). The USP creates standards in the packaging, storage and shipping of pharmaceuticals. Also, many of the states where we deliver pharmaceuticals, including controlled substances, have laws and regulations that require non-resident pharmacies to register with that state's board of pharmacy or similar regulatory body. In addition, some states have proposed laws to regulate online pharmacies; we may be subject to this legislation if passed. Furthermore, if our pharmacy dispenses durable medical equipment items, such as infusion pumps, that bear a federal legend requiring dispensing pursuant to a prescription, we would also be regulated by applicable state and federal durable medical equipment laws.

Federal agencies further regulate our pharmacy operations. Pharmacies must register with the Drug Enforcement Administration (DEA) and individual state-controlled substance authorities in order to dispense controlled substances. We sell controlled substances and therefore require a DEA license and maintain said DEA license. In addition, the FDA inspects facilities in connection with procedures to effect recalls of prescription drugs. The Federal Trade Commission (FTC) also has requirements for interstate sellers of goods. The U.S. Postal Service (USPS) has statutory authority to restrict the transmission of drugs and medicines through the mail to a degree that could have an adverse effect on our mail-order operations. The USPS historically has exercised this statutory authority only with respect to controlled substances. If the USPS restricts our ability to deliver drugs through the mail, alternative means of delivery are available to us. However, alternative means of delivery could be significantly more expensive. The Department of Transportation has regulatory authority to impose restrictions on drugs inserted in the stream of commerce. These regulations generally do not apply to the USPS and its operations.

Additionally, under the Omnibus Budget Reconciliation Act of 1990 and related state and local regulations, our pharmacists are required to offer counseling to our customers about medication, dosage, delivery systems, common side effects, adverse effects or interactions and therapeutic contraindications, proper storage, prescription refill and other information deemed significant by the pharmacists. We are also subject to requirements under the Controlled Substances Act and federal DEA regulations, as well as related state and local laws and regulations, relating to our pharmacy operations, including registration, security, recordkeeping and reporting requirements related to the purchase, storage and dispensing of controlled substances, prescription drugs and some OTC drugs.

"Compendial standards," which can also be called "official compendium," means the standards for drugs related to strength, purity, weight, quality, labeling and packing contained in the USP, official National Formulary, or any supplement to any of them. Under the Food, Drug and Cosmetic Act of 1938, a drug recognized by the Homeopathic Pharmacopeia of the United States must meet all compendial standards and labeling requirements contained therein, or it will be considered adulterated (for example, lacking appropriate strength, quality or purity; or containing poisonous or unsanitary ingredients) or misbranded (for example, having a false or misleading label; or a label containing an inaccurate description of contents). If we add homeopathic remedies to our product offerings, we will be required to comply with the Food, Drug and Cosmetic Act. The distribution of adulterated or misbranded homeopathic remedies or other drugs is prohibited under the Food, Drug and Cosmetic Act, and violations could result in substantial fines and other monetary penalties, seizure of the misbranded or adulterated items, and/or criminal sanctions.

We also are required to comply with the Dietary Supplement Health and Education Act (DSHEA) when selling dietary supplements and vitamins. The DSHEA generally governs the production, sale and marketing (including labeling) of dietary supplements, and it requires reporting to the FDA of certain adverse events regarding dietary supplements.

We believe that our operations have the appropriate licenses required under the laws of the states in which they are located, and that we conduct our pharmacy operations in accordance with the laws and regulations of these states.

Health Management Services Regulation

All states regulate the practice of medicine and require licensing under applicable state law. It is not our intent to practice medicine and we have attempted to structure our website and our business to avoid violation of state licensing requirements. However, the application of this area of the law to digital services such as ours is not well established and, accordingly, a state regulatory authority could at some time allege that some portion of our business violates these statutes. Any such allegation could harm our business. Further, any liability based on a determination that we engaged in the unlawful practice of medicine may be excluded from coverage under the terms of our general liability insurance policy.

Consumer Protection Laws

Most states have consumer protection laws designed to ensure that information provided to consumers is adequate, fair and not misleading. We believe that our practices conform to the requirements of state consumer protection laws. However, we may be subject to further scrutiny under these laws as they are often interpreted broadly.

Regulation Relating to Data Transmission and Confidentiality of Patient Identifiable Information

Dispensing of prescriptions and management of prescription drug benefits require the ability to utilize patient-specific information. Government regulation of the use of patient identifiable information has grown substantially over the past several years. At the federal level, Congress enacted the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which extensively regulates the transmission, use and disclosure of health information by all participants in healthcare delivery, including physicians, hospitals, insurers and other payers. To the extent that our pharmacy operations engage in certain electronic transactions (including claims for reimbursement by third-party payors), we may be a covered entity which is directly subject to these requirements. Additionally, regulation of the use of patient-identifiable information is likely to increase. Many states have passed or are considering laws addressing the use and disclosure of health information. These proposals vary widely, some relating to only certain types of information, others to only certain uses, and yet others to only certain types of entities. These laws and regulations have a significant impact on our operations, products and services, and compliance with them is a major operational requirement. Regulations and legislation that severely restrict or prohibit our use of patient identifiable information could materially adversely affect our business.

Sanctions for failing to comply with HIPAA standards include criminal and civil penalties. If we are found to have violated any state or federal statute or regulation with regard to the confidentiality, dissemination or use of patient medical information, we could be liable for significant damages, fines or penalties.

Fraudulent Billing, Anti-Kickback, Stark, Civil Monetary Penalties and False Claims Laws and Regulations

Our operations may in the future participate in federal and state programs such as Medicare and Medicaid. If we do, we would be subject to extensive government regulation including numerous state and federal laws and corresponding regulations directed at preventing fraud and abuse and regulating reimbursement. The government's Medicare and Medicaid regulations are complex and sometimes subjective and therefore may require our management's interpretation. If we were to participate in federal and state programs such as Medicare and Medicaid, our compliance with Medicare and Medicaid regulations may be reviewed by federal or state agencies, including the Department of Health and Human Services' (HHS) Office of the Inspector General (OIG), the Centers for Medicare and Medicaid Services (CMS), the Department of Justice (DOJ), and the FDA. To ensure compliance with Medicare, Medicaid and other regulations, government agencies conduct periodic audits to ensure compliance with various supplier standards and billing requirements.

Similarly, regional health insurance carriers routinely conduct audits and request patient records and other documents to support claims submitted for payment.

Federal law prohibits the payment, offer, receipt or solicitation of any remuneration that is knowingly and willfully intended to induce the referral of Medicare, Medicaid or other federal healthcare program beneficiaries for the purchase, lease, ordering or recommendation of the purchase, lease or ordering of items or services reimbursable under federal healthcare programs. These laws are commonly referred to as anti-remuneration or anti-kickback laws. Several states also have similar laws, known as "all payor" statutes, which impose anti-kickback prohibitions on services covered by any third-party payor (whether or not a federal healthcare program). Anti-kickback laws vary between states, and courts have rarely interpreted them. If in the future we accept third-party reimbursement, we may be more explicitly subject to these laws.

Courts, the OIG and some administrative tribunals have broadly interpreted the federal anti-kickback statute and regulations. Courts have ruled that a violation of the statute may occur even if only one of the purposes of a payment arrangement is to induce patient referrals or purchases. Should we enter the government payor sector, it is possible that our current practices in the commercial sector may not be appropriate in the government payor sector.

The Ethics in Patient Referrals Law (Stark Law) prohibits physicians from making a referral for certain Medicare-covered health items or services if they, or their family members, have a financial relationship with the entity receiving the referral. No bill may be submitted in connection with a prohibited referral. Violations are punishable by civil monetary penalties upon both the person making the referral and the provider rendering the service. Such persons or entities are also subject to exclusion from Medicare and Medicaid. Many states have adopted laws similar to the Stark Law, which restrict the ability of physicians to refer patients to entities with which they have a financial relationship.

The Federal False Claims Act prohibits the submission of a false claim or the making of a false record or statement in order to secure a reimbursement from a government-sponsored program. In recent years, the federal government has launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. Civil monetary penalties may be assessed for many types of conduct, including conduct that is outlined in the statutes above and other federal statutes in this section. Under the Deficit Reduction Act of 2005 (DRA), states are encouraged to pass state false claims act laws similar to the federal statute.

Sanctions for fraudulent billing, kickback violations, Stark Law violations or violations of the False Claims Act include criminal and civil penalties. If we do accept third-party reimbursement and/or participate in federal payor programs in the future and are found to have violated any state or federal kickback, Stark Law or False Claims Act law, we could be liable for significant damages, fines or penalties and potentially be ineligible to participate in federal payor programs.

Legislation and Regulation Affecting Drug Prices and Potentially Affecting the Market for Prescription Benefit Plans and Reimbursement for Durable Medical Equipment

The federal government has increased its focus on methods drug manufacturers employ to develop pricing information, which in turn is used in setting payments under the Medicare and Medicaid programs. One element common to many payment formulas, the use of "average wholesale price" (AWP) as a standard pricing unit throughout the industry, has been criticized as not accurately reflecting prices actually charged and paid at the wholesale or retail level. The DOJ is conducting, and the House Commerce Committee has conducted, an investigation into the use of AWP for federal program reimbursement, and whether the use of AWP has inflated drug expenditures by the Medicare and Medicaid programs. Federal and state proposals have sought to change the basis for calculating reimbursement of certain drugs by the Medicare and Medicaid programs.

The DRA revised the formula used by the federal government to set the Federal Upper Limit (FUL) for multiple source drugs by adopting 250 percent of the average manufacturer's price (AMP) without regard to customary prompt pay discounts to wholesalers for the least costly therapeutic equivalent. On July 17, 2006, HHS published a Final Rule for the Medicaid Prescription Drug Program implementing the DRA in which AMP was defined to exclude discounts and rebates to pharmacy benefit managers and include sales to mail-order and specialty pharmacies in the AMP calculation by manufacturers.

These proposals and other legislative or regulatory adjustments that may be made to the program for reimbursement of drugs by Medicare and Medicaid, if implemented, could affect our ability to negotiate discounts with pharmaceutical manufacturers. They could also impact the reimbursement we may receive from government payors in the future should we choose to participate in such programs. In addition, they may affect our relationships with health plans. In some circumstances, they might also impact the reimbursement that we would receive from managed care organizations that contract with government health programs to provide prescription drug benefits or otherwise elect to rely on the revised pricing information. Furthermore, private payers may choose to follow the government's example and adopt different drug pricing bases. This could affect our ability to negotiate with plans, manufacturers and pharmacies regarding discounts and rebates.

Relative to our durable medical equipment operations, The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (DIMA), established a program for the competitive acquisition of certain covered items of durable medical equipment, prosthetics, orthotics and supplies (DMEPOS). Diabetes testing supplies, including test strips and lancets, which are commonly supplied via mail-order delivery, are subject to the competitive acquisition program. Only qualified suppliers that meet defined participation standards specified in the final rule will be permitted to engage in the competitive acquisition program. In 2010, mail-order diabetes testing supplies may be subject to a national or regional program, which would require mail-order suppliers to bid on supplying certain DMEPOS items.

Medicare Part D and Part B; State Prescription Drug Assistance Programs

The DIMA also offers far-reaching changes to the Medicare program. The DIMA established a new Medicare Part D outpatient prescription drug benefit for over 40 million Americans who are eligible for Medicare. Qualified beneficiaries, including senior citizens and disabled individuals, have had the opportunity to enroll in Medicare Part D since January 1, 2006.

In addition, many states have expanded state prescription drug assistance programs to increase access to drugs by those currently without coverage and/or supplement the Medicare Part D benefit of those with coverage to offer options for a seamless benefit. In accordance with applicable CMS requirements, to participate we may have to enter into agreements with a number of state prescription drug assistance programs and collaborate to coordinate benefits with Medicare Part D plans.

If we participate in these state and/or federal payor programs in the future, we will have to comply with the applicable conditions of participation for such plans, may be subject to competitive bidding requirements under such plans, and may be subject to adverse pricing limitations imposed by such plans (including the DRA limits described above).

Industry Standards for Pharmacy Operations

The National Committee on Quality Assurance, the American Accreditation Health Care Commission (known as URAC), the Joint Commission on Accreditation of Healthcare Organizations and other quasi-regulatory and accrediting bodies have developed standards relating to services performed by pharmacies, including mail order, formulary, drug utilization management and specialty pharmacy. While the actions of these bodies do not have the force of law, pharmacy benefit managers and many clients for pharmacy benefit manager services seek certification from them, as do other third parties. These bodies may influence the federal government or states to adopt requirements or model acts that they promulgate. The federal government and some states incorporate accreditation standards of these bodies, as well as the standards of the National Association of Insurance Commissioners and the National Association of Boards of Pharmacy, a coalition of state pharmacy boards, into their drug utilization review regulation. Future initiatives of these bodies are uncertain and resulting standards or legislation could impose restrictions on us in a manner that could significantly impact our business.

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 March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges the Company conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys' fees. After retaining local counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company's motions. On July 10, 2023, the Company filed a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company's motions to which the Company replied on August 15, 2023. On August 15, 2023, the Judge granted the Company's Motion to Dismiss all claims on the basis that the plaintiff had failed to adequately allege personal jurisdiction over the Company. The Plaintiff amended their complaint on September 4, 2023 and the Company filed a renewed motion to dismiss on September 18, 2023. Plaintiff's opposition to our motion was filed on October 30, 2023 and the Company filed a response on November 6, 2023. The matter is fully briefed and before the Court. The Company believes the Complaint is without merit and intends to contest this matter vigorously.

Employees

As of March 1, 2024, we employed 92 full-time employees and 11 part-time employees. None of our employees are subject to a collective bargaining agreement and we believe that relations with our employees are good. The Company, from time to time, also utilizes independent contractors to supplement its workforce.

9) Description of Issuer's 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. The Company also provides fulfillment of prescription medication, medical devices and other services to customers of other healthcare providers and manufacturers.

Customers

Direct-to-consumer (B2C): We sell directly to individual consumers who purchase prescription medications and OTC products over the Internet. B2C net sales represented 73% and 67% of total net sales in 2022 and

2023, respectively. Uninsured consumers were predominantly our customers in our early years, while over 90% of our customers carry health insurance when purchasing from us today. Rising insurance co-pays and high deductible plans due to the Affordable Care Act have caused more consumers to pay out-of-pocket. The Company is not dependent on any one or a few B2C customers.

Partner Services: We provided fulfillment of prescription and over-the-counter medication, medical devices and other services to customers of other healthcare providers and manufacturers. In most cases, we bill the partner services customer on a monthly basis for the services provided including fulfillment fees, product cost and shipping. Credit terms with partner services customers range from Net 10 days to Net 45 days. Partner services represented 27% and 33% of net sales in 2022 and 2023, respectively, and one customer represented 9% of total net sales during 2022 and two customers represented 9% and 7% of net sales during 2023.

Suppliers

There are a number of suppliers available for the pharmaceutical and non-pharmaceutical products that we sell. Our principal suppliers are TopRx, Amerisource Bergen, Cardinal Health and Keysource, as well as many direct manufacturers like Amneal, Prasco, Greenstone, Inspire, HPS Rx and National Vitamin Company. While we source our supplies from a limited number of suppliers, with three representing approximately 73% of purchases in 2023, we do not believe that our business is dependent on any one supplier since most of the products that we sell are readily available from a number of alternative suppliers. Even if a significant supplier were to no longer be available to us, we believe that we could source replacement product through one or more alternative suppliers without having a significant effect on our business.

Competition

The market for prescription and OTC health products is intensely competitive and highly fragmented. However, there are fewer competitors focusing on the out-of-pocket prescription market. Our competitors in the segment include chain drugstores, mail order pharmacies, pharmacy benefits managers (PBMs), mass market retailers, warehouse clubs, supermarkets and other online retailers. Many of these potential competitors in the market are also established organizations with greater access to resources and capital. In addition, we face competition from foreign online pharmacies that can often sell drugs to U.S. residents at a lower price because they do not comply with U.S. pharmacy regulations, are not subject to U.S. regulatory oversight, or both. We also compete with Internet portals and online service providers that feature shopping services and with other online or mail-order retailers that offer products similar or the same to those that we sell.

We believe that the principal competitive factors in our market includes brand awareness and preference, company credibility, product selection and availability, convenience, price, actual or perceived value, website features, functionality and performance, ease of purchasing, customer service, privacy, quality and quantity of information supporting purchase decisions (such as product information and reviews), reliability and speed of order shipment.

Trademarks

We filed for a trademark on the name "HealthWarehouse.com" on August 14, 2007 with the U.S. Patent and Trademark Office, which trademark was granted with a registration date of May 19, 2009. We also rely on trade secret law and contractual restrictions to protect our intellectual property, and we do not intend to seek patent or copyright protection for our intellectual property at this time.

10) Issuer's Facilities

HealthWarehouse.com, Inc.'s corporate headquarters is located at 7107 Industrial Road, Florence, Kentucky, 41042 which also houses its inventory, 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. The monthly lease rate ranges between $7,955 and $9,498 during the term of the lease. See Footnote 8 – Commitments and Contingencies to the Company's consolidated financial statements for more details.

PART D – MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

11) Officers, Directors and Control Persons

The following table sets forth certain information with respect to the directors and executive officers of the Company as of December 31, 2023.

Name	Title	2023 Compensation (1)	Beneficial Ownership
Joseph B. Peters	President and Chief Executive Officer, Director	Cash: $222,000 Options: $152,282 (1,000,000 shares at $0.17 per share)	Common: 283,463 shares Options: 4,100,999 shares Beneficial Ownership: 7.5%
Daniel J. Seliga	Chief Financial Officer	Cash: $213,000 Options: $121,826 (800,000 shares at $0.17 per share)	Common: 1,041,354 shares Options: 3,599,999 shares Beneficial Ownership: 8.0%
Tim Reilly	Director, Chairman	Cash: $12,000 Stock: $24,000 (155, 882 shares at $0.12 to $0.17 per share) Options: $40,000 (298,803 shares at $0.12 to $0.17 per share)	Common: 4,818,989 shares Options: 935,171 shares Warrants: 63,000 shares Convertible Note of $1,050,000: convertible into 9,545,456 common shares Beneficial Ownership: 23.6%
Jack Britts	Director	Cash: $12,000 Stock: $24,000 (155, 882 shares at $0.12 to $0.17 per share) Options: $40,000 (298,803 shares at $0.12 to $0.17 per share)	Common: 901,623 shares Options: 935,171 shares Beneficial Ownership: 3.3%
Joseph Heimbrock	Director	Cash: $12,000 Stock: $24,000 (155, 882 shares at $0.12 to $0.17 per share) Options: $40,000 (298,803 shares at $0.12 to $0.17 per share))	Common: 2,158,073 shares Options: 965,899 shares Warrants: 604,581shares Series B Preferred: 494,913 shares (convertible to 7,324,713 common shares) Beneficial Ownership: 17.4%
Sara Mannix	Director	Cash: $12,000 Stock: $24,000 (155, 882 shares at $0.12 to $0.17 per share) Options: $40,000 (298,803 shares at $0.12 to $0.17 per share)	Common: 428,136 shares Options: 787,351 shares Beneficial Ownership: 2.2%

(1) The value of the stock and options issued was based on the thirty-day weighted average closing share price as of the grant date. The value of the options was determined utilizing the Black-Scholes option pricing model.

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, 2023, in addition to the officers and directors disclosed above. 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
New Atlantic Venture Funds and Todd Hixon,	>5%	11911 Freedom Drive Suite 1080, Reston, VA 20190	1,470,589	Common	2.7%	12.2%
Managing Partner			6,500	Preferred - Series C	100.0%	
Cormag Holdings, LTD and Mark D. Scott	>5%	104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6	5,387,588	Common	9.9%	9.9%
Dr. Bruce Bedrick	>5%	5375 Monterey Circle #32, Delray Beach, FL 33484	3,900,000	Common	7.1%	7.1%
Lalit Dhadphale	>5%	182 Uccello Drive, Las Vegas, NV 89138	3,022,479	Common	5.5%	5.5%

Biographical Information of Executives and Directors

Joseph Peters, Chief Executive Officer, President and Director, age 38, was appointed Chief Executive Officer effective January 1, 2018 after serving as interim Chief Executive Officer and President of the HealthWarehouse.com since April 11, 2017. He joined the Board on July 24, 2017. Mr. Peters joined HealthWarehouse.com in January of 2012, working in nearly every role in the company before becoming Customer Service Manager in 2012, Human Resources Manager in 2013, Vice President of Operations in 2014 and President & Chief Executive Officer in 2017. With his unique experience at all levels of the organization, Mr. Peters, who is also a Certified Pharmacy Technician (CpHT), currently oversees all aspects of the company's operations, including pharmacy, engineering, customer service, and fulfillment. Prior to joining HealthWarehouse.com, Mr. Peters was Director of Operations at ToneRite, Inc., a company producing automatic musical instrument tuners sold on and offline. Mr. Peters oversaw multiple departments from production and fulfillment to sales and promotion. Mr. Peters received his Bachelor's Degree from the University of Florida in Business Management in 2009 and a Master's Degree in International Business in 2010. Mr. Peter's business address is 7107 Industrial Road, Florence, KY 41042.

Daniel Seliga, Chief Financial Officer, age 58, became the Chief Financial Officer of the Company effective January 1, 2018. Mr. Seliga was formerly Chief Operating Officer and Chief Financial Officer of the Company from January 1, 2016 to October 9, 2016 and had provided financial and operational consulting services to HealthWarehouse.com since August 2013. Prior to joining the Company full time, Mr. Seliga was a Managing Director of Melrose Capital, the Company's senior lender. From September 2010 to December 2012, he was General Manager and Business Manager for MVI Enterprises, the largest truck dealership network in Ohio. From November 1996 to July 2010, Mr. Seliga was the Chief Financial Officer and Vice President of Operations for Mae Holding Company, a privately held wholesale distributor of commercial construction materials and a retail home improvement company. Prior to 1996, Mr. Seliga served as a commercial and real estate lending officer for Bank of New York and PNC Bank. Mr. Seliga received an

MBA in Finance from the University of Notre Dame and a BS in Accounting from Saint Vincent College. Mr. Seliga's business address is 7107 Industrial Road, Florence, KY 41042.

Tim Reilly, Chairman of the Board, age 60, is a business owner and investor with several business interests. He was elected to the Board in September 2019. Mr. Reilly is currently Chairman of MVI Enterprises, Inc., a holding company with interests in transportation, finance and real estate. He is also the founder and Managing Director of Melrose Capital Advisors LLC, a provider of capital and advisory services to small and mid-sized businesses. Mr. Reilly was the former President and Owner of MVI Group, the largest network of commercial truck and bus dealerships in the state of Ohio. After building a network of 10 locations, Mr. Reilly sold MVI Group to Rush Enterprises, headquartered in New Braunfels, Texas, in 2012. Prior to his time in the dealership industry, Mr. Reilly was President and Owner of the Dayton Bomber's Professional Hockey Team in Dayton, Ohio which he sold in 2005. Prior to acquiring the hockey team, Mr. Reilly enjoyed a 17-year career in the commercial banking industry including Managing Director of PNC Capital Markets, the investment banking unit of PNC Bank. Mr. Reilly's business address is 1085 Gulf of Mexico Drive, Longboat Key, FL 34228.

Jack Britts, age 64, currently serves as a business consultant and investor focusing on pharmaceutical and healthcare companies. He has served on the Board since September 2017. Mr. Britts has over 30 years of diverse experience including, serving as Co-Chief Executive Officer, Chief Operating Officer and Member of the Board of Directors of Crown Laboratories from July 2012 through 2014, a fully integrated pharmaceutical company. Prior to Crown and for more than five years, Mr. Britts was President and Chief Executive Officer of Merz Pharmaceuticals LLC, a privately held multinational pharmaceutical company specializing in neurology and dermatology. Mr. Britt's business address is 590 Windsor Road, Ashville, NC 28804.

Sara Mannix, age 57, is the President of Mannix Marketing, Inc., a company she founded in 1996 with a focus on organic search to help businesses "get found on the web". Since then, her company has evolved into a full-service digital marketing agency with a core focus of helping business grow by growing their website traffic, conversions, leads and sales. Mannix Marketing has either been shortlisted or won the industry's top award for organic search "Best in Search US" for seven years in a row. The business is located in upstate NY, employs a team of 25 digital marketing specialists and serves over 1000 clients nationwide. Ms. Mannix graduated Summa Cum Laude from the University at Albany with a double major in Spanish and Italian. Ms. Mannix's business address is 11 Broad Street, Glen Falls, NY.

Joe Heimbrock, age 68, has served as a director since April 2016 and is the managing partner of MVI Partners, LLC. Mr. Heimbrock has over 30 years of business experience in the commercial trucking industry, including sales, marketing and operational management. He most recently served as the Regional General Manager in Ohio for Rush Enterprises, Inc., which is headquartered in New Braunfels, Texas. Rush Enterprises owns and operates the nation's largest network of commercial vehicle dealerships, including new and used trucks through its Rush Truck Centers. Prior thereto, Mr. Heimbrock was Vice President of MVI Enterprises, the largest truck dealership network in Ohio which was purchased by Rush Enterprises in 2012. Mr. Heimbrock's business address is 3299 Hughes Court, Taylor Mill, KY 41015.

Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past five years, been the subject of:

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

   None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or

otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   None

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

   None

Related Party Transactions

The Company executed convertible note purchase agreements (the"Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the "Convertible Notes") (collectively the "Convertible Note Agreements"). Under the terms of the Convertible Notes, the Company borrowed an aggregate of $2,200,000 from a group of eleven investors. The Company received an aggregate of $1,661,969 of cash proceeds, net of costs associated with the transaction, including $500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. 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 Millenium 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 entered Into an agreement with Mannix Marketing, Inc. In March 2023 to provide various marketing services including digital advertising and branding. During 2023, Mannix Marketing invoiced $33,000 to the Company for those services which was included in selling, general and administrative expenses, of which the Company paid $28,500 as of December 31, 2023. Sarah Mannix is President of Mannix Marketing, Inc. and is a director of the Company. As such, the services provided by Mannix Marketing are related party transactions.

12) Financial Statements

a) The following consolidated financial statements were prepared in accordance with U.S. GAAP.

b) The consolidated financial statements for this reporting period were prepared by Daniel Seliga, Chief Financial Officer of the Company.

See PART II –CONSOLIDATED FINANCIAL STATEMENTS below.

13) Financial Statements for 2 prior fiscal years:

The Consolidated Financial Statements for fiscal years ended December 31, 2021 and 2022 were filed with the OTC Markets and can be found at www.otcmarkets.com as well as on the Company's website.

14) 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:	730 Third Avenue, 11th Floor
Address 2:	New York, NY 10017
Phone:	(212) 485-5500

15) Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion of results of operations and financial condition is based upon, and should be read in conjunction with, our consolidated financial statements and accompanying notes thereto, included elsewhere in this Annual Report.

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond our control. Our actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in this report. Important factors that may cause actual results to differ from any forward-looking statements include any forward-looking statements:

- significant changes in consumer demand for our products, resulting in volatility of our operating results and financial condition;
- our ability to effectively respond to changing market conditions;

- whether as a result of market conditions, or our financial condition or otherwise, the possibility that we will not be able to raise sufficient additional capital needed to operate our business;
- unexpected costs, lower than expected sales and revenues, loss of a large customer and operating deficits;
- our ability to obtain supply at favorable rates;
- unexpected changes in our industry's competitive forces including the manner and degree in which our competitors serve our target market;
- our ability to attract or retain qualified senior management personnel; and
- the effects of the COVID-19 pandemic on our operations and financial results and the United States economy in general.

All statements, other than statements of historical facts, included in this report regarding our strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects and plans and objectives of management are forward-looking statements. When used in this report, the words "will," "may," "believe," "anticipate," "intend," "estimate," "expect," "project," "plan" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved.

Overview

HealthWarehouse.com, Inc., a technology company with a focus on healthcare e-commerce, sells and delivers prescription and over-the-counter medications to all 50 states as an Approved Digital Pharmacy through the National Association of Boards of Pharmacy (NABP). HealthWarehouse.com provides a platform focused on increasing access and reducing costs of healthcare products for consumers and business partners nationwide.

The Company sells directly to individual consumers who purchase prescription medications and over-the-counter products over the Internet. HealthWarehouse.com is currently one of 86 National Association of Boards of Pharmacy ("NABP") accredited digital pharmacies. In addition, the Company also provides fulfillment services of prescription medication and medical devices to customers of other healthcare providers including telemedicine and online services companies and manufacturers.

Consumers who pay out of pocket for their prescriptions include those:

- with no insurance coverage;
- with high insurance deductibles or copays;
- with Medicare Part D plans with high deductibles;
- with Health Savings Accounts (I) or Flexible Savings Accounts (FSA);
- with insurance through the Affordable Care Act (ACA) with high deductibles;
- with drug exclusions and quantity restrictions placed by insurance companies.

Our objective is to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We have become known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medication. We were named by Money.com one of the five best online pharmacies of 2020. This popular personal finance website recognized that the Company has earned a reputation for being one of the most affordable pharmaceutical options and highlighted the Company's customer service offering.

Results of Operations

For The Year Ended December 31, 2023 Compared to The Year Ended December 31, 2022

In thousands		For year ended Ended December 31, 2023	% of Revenue		For year ended Ended December 31, 2022	% of Revenue
Net sales	$	20,283	100.0%	$	18,143	100.0%
Cost of sales		8,109	40.0%		6,202	34.2%
Gross profit		12,174	60.0%		11,941	65.8%
Selling, general & administrative		13,796	68.0%		12,725	70.1%
Loss from operations		(1,622)	(8.0%)		(784)	(4.3%)
Interest expense		(152)	(0.7%)		(164)	(0.9%)
Loss before taxes		(1,774)	(8.7%)		(948)	(5.2%)
Income tax expense		-	0.0%		(4)	(0.0%)
Net loss	$	(1,774)	(8.7%)	$	(952)	(5.2%)

Net Sales

For year ended December 31, 2023	% Change	$ Change	For year ended December 31, 2022
In thousands			
$20,283	11.8%	$2,140	$18,143

Net sales increased from $18.1 million for the year ended December 31, 2022 to $20.2 million for the year ended December 31, 2023, an increase of $2.1 million, or 11.8%. Prescription sales were $17.4 million for the year ended December 31, 2023, as compared to $14.7 million for the year ended December 31, 2022, an increase of $2.7 million, or 18.2%, due to increases in order volume in partner services and higher average sales per order in the direct-to-consumer (B2C) business resulting from a higher volume of brand medication sales. Over-the-counter net sales decreased by 17.9% from $3.2 million in the year ended December 31, 2022 to $2.6 million in the year ended December 31, 2023. The reduction in the B2C over-the-counter sales was primarily due to lower marketplace sales, partially offset by higher partner services sales.

Cost of Sales and Gross Margin

	For year ended December 31, 2023	% Change	$ Change	For year ended December 31, 2022
In thousands				
Cost of sales	$8,109	30.7%	1,907	$6,202
Gross margin $	$12,174	2.0%	233	$11,941
Gross margin %	60.0%	-5.9%		65.8%

Cost of sales were $8.1 million for the year ended December 31, 2023 as compared to $6.2 million for the year ended December 31, 2022, an increase of $1.9 million or 30.7%, primarily as a result of the increase in order volume, higher costs for DTC prescription business products and the write down of certain inventory items to market value. Gross profit for the year ended December 31, 2023 was $12.2 million, a $233,000 or 2.0%, increase when compared to the same period in 2022, due to the increase in sales volume and offset by lower gross margins. Gross margin percentage decreased year-over-year from 65.8% for the year ended December 31, 2022 to 60.0% for the year ended December 31, 2023, primarily due to (i) the lower margin partner services business (relative to the direct-to-consumer business) representing a higher percentage of sales, (ii) decreased year-over-year margins in the DTC prescription business due to higher prescription brand drug sales which have higher costs. and (iii) a $61,000 write down of inventory to market value.

Selling, General and Administrative Expenses

	For year ended December 31, 2023	% Change	$ Change	For year ended December 31, 2022
In thousands				
S,G&A	$13,796	8.4%	$1,071	$12,725
% of sales	68.5%			70.1%

Selling, general and administrative expenses totaled $13.8 million for the year ended December 31, 2023 compared to $12.7 million for the year ended December 31, 2022, an increase of $1.1 million, or 8.4%. For the year ended December 31, 2023, increased expenses included (a) a $489,000 increase in salaries and related expenses, primarily in pharmacy, engineering and customer support; (b) a $428,000 increase in bad debt expense; (c) a $255,000 increase in shipping and shipping supplies expenses; (d) an $147,000 increase in software and engineering expense; (e) a $128,000 increase in stock-based compensation expense; (f) a $115,000 increase in depreciation and amortization expense; (g) an $106,000 increase in telephone expense; and (h) a $61,000 increase in employee benefit expenses. Those increases were offset by a $691,000 reduction in advertising and marketing expenses. Approximately $191,000 of the increase in shipping and salary expenses can be attributed to the operational disruption and additional costs incurred related to the implementation of new software.

Other Income and Expense

Net interest expense decreased from $164,000 in the year ended December 31, 2022 to $152,000 in the year ended December 31, 2023, a decrease of $12,000, or 7.4%, primarily due to a reduction in amortization of debt discount related to the issuance of convertible notes and higher interest income earned on excess cash balances, offset by an increase in interest expense on the outstanding Convertible Notes. Interest income was $15,000 and $7,000 for the years ended December 31, 2023 and 2022, respectively, as excess funds were invested in interest bearing money market accounts which offered higher interest rates in 2023 despite lower average balances invested.

Net Loss

Net loss increased from $952,000 in the year ended December 31, 2022 to $1.8 million in the year ended December 31, 2023, an increase of $822,000, or 86.3% primarily as a result of increased cost of sales and selling, general and administrative expenses.

Adjusted EBITDAS

We believe Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”), a financial measure not included in accounting principles generally accepted in the United States of America (“U.S. GAAP”), is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe that:

Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-U.S. GAAP financial measures to supplement their U.S. GAAP results; and

- Adjusted EBITDA is useful because it excludes non-cash charges, such as depreciation and amortization, stock-based compensation and one-time charges, which the amount of such expense in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods.

We use Adjusted EBITDA in conjunction with traditional U.S. GAAP measures as part of our overall assessment of our performance, to evaluate the effectiveness of our business strategies and to communicate with our lenders, stockholders and board of directors concerning our financial performance.

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with U.S. GAAP. There are limitations to using non-U.S. GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted EBITDAS through disclosure of these limitations, presentation of our financial statements in accordance with U.S. GAAP and reconciliation of Adjusted EBITDA to the most directly comparable U.S. GAAP measure, specifically net loss.

The following provides a reconciliation of net loss to Adjusted EBITDA:

	For the Year Ended For year ended December 31, 2023	2022
Net loss	$ (1,774)	$ (952)
Interest expense	152	164
Depreciation and amortization	254	139
EBITDA (non-GAAP)	(1,368)	(649)
Adjustments to EBITDA:		
Stock-based compensation	924	796
Bad debt expense	428	-
Adjusted EBITDA	$ (16)	$ 147

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities in which we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Impact of Inflation

While the inflationary environment experienced in 2022 and 2023 increased our shipping, packaging and labor costs, we believe that inflation did not have a material impact on our results of operations for the years ended December 31, 2023 and 2022. We cannot assure that future inflation will not have an adverse impact on our operating results and financial condition.

Liquidity and Capital Resources

The Company’s working capital deficiency increased from $1.5 million at December 31, 2022 to $2.7 million as of December 31, 2023 and the stockholder deficiency increased from $3.0 million at December 31, 2022 to $4.0 million as of December 31, 2023. For the year ended December 31, 2023, the Company had a net loss of $1.8 million and net cash used by operating activities of $164,000. As of December 31, 2023, the Company had cash and liquid investments totaling $568,000.

On December 31, 2023, the Company extended the maturity date of the Convertible Notes to April 20, 2025, which reduced its current obligations as of December 31, 2023. The primary component of the Company's remaining current obligations is the accrued dividends totaling $2,737,864 to the holders of the Series B Preferred shares. The dividends continue to accrue as Company is restricted from paying dividends if there is no surplus in equity per Delaware law. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company's discretion, when allowable under Delaware law.

Although there was net cash used by operating activities in 2023, the Company believes it has sufficient cash balances. The Company anticipates improvement in cash from operations as (i) its 2023 results were negatively impacted from various exceptional expenses that will not be recurring in 2024 and (ii) the Company expects its 2024 sales to increase from two recently executed pharmacy provider agreements that could generate an additional $5.0 million of revenue. Therefore, the Company is anticipating an improvement in cash from operations and cash balances in 2024.

Management believes its plans and expected improvement in cash from operations alleviate the substantial doubt about the Company's ability to continue as a going concern. As such, the Company believes that its current financial resources are sufficient to satisfy the Company's estimated liquidity needs for at least twelve months from the date of issuance of these consolidated financial statements.

As of December 31, 2023, the Company had cash on hand of $568,000. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the year ended December 31, 2023, cash flows included net cash used by operating activities of $164,000. This amount included a decrease in operating cash related to a net loss of $1.8 million, partially offset by aggregate non-cash adjustments of $1.8 million, plus aggregate cash used by changes in operating assets and liabilities of $163,000 (primarily a result of an increase in accounts receivable and inventory, partially offset by an increase in accounts payable and accrued expenses). For the year ended December 31, 2022, cash flows included net cash used by operating activities of $624,000. This amount included a decrease in operating cash related to a net loss of $952,000, partially offset by aggregate non-cash adjustments of $1.3 million, plus aggregate cash used by changes in operating assets and liabilities of $960,000 (primarily a result of an increase in accounts receivable and inventory, partially offset by increased in accounts payable and accrued expenses).

For the years ended December 31, 2023 and 2022, net cash used in investing activities was $310,000 and $513,000, respectively, used for capital expenditures and capitalization of software development costs.

There were no financing activities for the year ended December 31, 2023 and 2022.

Changes in Financial Condition

The Company's total assets were $3.2 million at December 31, 2023, a decrease of $759,000 from the prior year primarily due to decreases in cash on hand, accounts receivable and the operating lease right of use asset, offset by an increase in software development costs. Total liabilities were $6.6 million at December 31, 2023, an increase of $214,000 over the prior year, primarily due to increased accrued dividends and expenses, accounts payable, offset by a reduction in the operating lease liability.

PART E: ISSUANCE HISTORY

16) Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

Number of Shares outstanding as of January 1, 2022	Opening Balance	
	Common	52,028,475
	Preferred Series B	517,359
	Preferred Series C	9,000

Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued ($ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type
1/17/22	New	37,500	Common	$0.16	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/17/22	New	37,500	Common	$0.16	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
1/17/22	New	37,500	Common	$0.16	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
1/17/22	New	37,500	Common	$0.16	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	$0.16	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	$0.16	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	$0.16	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/7/22	New	37,500	Common	$0.16	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
6/6/22	Conversion	2,384	Series C Preferred	$0.17	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	89	Series C Preferred	$0.17	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	27	Series C Preferred	$0.17	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
6/6/22	Conversion	1,402,353	Common	$0.17	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
6/6/22	Conversion	52,353	Common	$0.17	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
6/6/22	Conversion	15,883	Common	$0.17	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
7/11/22	New	30,000	Common	$0.20	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	$0.20	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	$0.20	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/11/22	New	30,000	Common	$0.20	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
10/13/22	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/13/22	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
10/13/22	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/13/22	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
2/6/23	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
2/6/23	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
2/6/23	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
2/6/23	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/17/23	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
7/14/23	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/14/23	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/14/23	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/14/23	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
10/9/23	New	50,000	Common	$0.12	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/9/23	New	50,000	Common	$0.12	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
10/9/23	New	50,000	Common	$0.12	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/9/23	New	50,000	Common	$0.12	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701

Number of Shares outstanding as of December 31, 2023	Ending Balance	
	Common	54,683,768
	Preferred Series B	517,359
	Preferred Series C	6,500

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

Please see Footnote –2 - 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.

Debt Securities, Including Promissory and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of Note Issuance	Outstanding Balance ($) as of 12/31/2023	Principal Amount at Issuance ($)	Interest Accrued ($) as of 12/31/2023	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	$ 1,675,000	$ 1,675,000	$ -	4/30/2025	Convertible to shares of common stock at $0.11 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	$ 525,000	$ 525,000	$ -	4/30/2025	Convertible to shares of common stock at $0.11 per share	Robert B. Ford; Thomas J. Daley 2019 Trust, Thomas J. Daley, Trustee; John Pauly; Marian Pauly; Dwayne Stephens	Repay existing indebtedness and General working capital purposes.

Please see Footnote 6 – Notes Payable to the Company's consolidated financial statements for more information.

PART F: EXHIBITS

17) Material Contracts (as of December 31, 2023):

The Company is party to convertible note purchase agreements and a security agreement, as amended, on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (collectively the "Convertible Note Agreements"). Under the terms of the Convertible Note Agreements, the Company borrowed an aggregate of $2,200,000 from a group of eleven investors. See Note 6 to the Consolidated Financial Statements.

On October 29, 2020, the Company entered into a Conversion and Standstill Agreement with the holders of $1,000,000 principal amount of the Company's Series C Preferred Stock. See Note 8 to the Consolidated Financial Statements.

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. See Note 7 to the Consolidated Financial Statements.

The Company adopted the 2014 Equity Incentive Plan, as amended, (the "2014 Plan") in August 2014 which provided for 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 was amended in 2020, 2021 and 2023 to increase the number of shares available to 43,000,000 shares. See Note 8 to the Consolidated Financial Statements.

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts. See Note 9 to the Consolidated Financial Statements.

The Company has contracts with various suppliers of prescription and over-the-counter medications that specify the term and conditions for purchasing and returning product, payment terms and other items.

The Company has contracts with various partner services customers that specify the obligations of each party, the services to be provided, pricing for the services, payment terms and other items.

The Company has contracts with various providers of services, including but not limited to software, internet, data storage, that specify the term and conditions for providing the services, payment terms and other items.

18) Articles of Incorporation and Bylaws:

The Company's Articles of Incorporation and Bylaws are posted in the Investor Relations section of the Company's website. www.healthwarehouse.com/investors-relations

19) Purchases of Equity Securities by the Issuer and Affiliated Purchasers: None.

20) Issuer Certifications

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 22, 2024 /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 22, 2024 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II – CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
HealthWarehouse.com

Opinion

We have audited the consolidated financial statements of HealthWarehouse.com, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in stockholders' deficiency, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of HealthWarehouse.com as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HealthWarehouse.com and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HealthWarehouse.com's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but

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is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HealthWarehouse.com’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HealthWarehouse.com’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Marcum LLP

New York, NY
March 22, 2024

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 567,959	$ 1,041,766
Accounts receivable	608,122	847,566
Inventories	509,116	502,482
Prepaid expenses and other current assets	158,146	174,134
Total current assets	1,843,343	2,565,948
Property and equipment, net	910,727	937,036
Software development costs, net	354,556	272,000
Operating lease right of use asset	99,880	192,530
Total assets	$ 3,208,506	$ 3,967,514
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 901,257	$ 807,860
Accrued dividends	2,737,864	2,395,631
Accrued expenses and other current liabilities	835,632	753,423
Operating lease liability	108,776	98,274
Total current liabilities	4,583,529	4,055,188
Long term liabilities:		
Operating lease liability, non-current	-	108,776
Convertible notes payable, net of debt discount of $218,859 and $12,990 as of December 31, 2023 and 2022, respectively	1,981,141	2,187,010
Total long term liabilities	1,981,141	2,295,786
Total liabilities	6,564,670	6,350,974
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value $0.001 per share; 10,000 shares designated Series C: issued and outstanding 6,500 as of December 31, 2023 and 2022 (aggregate liqidation preference of $650,000 as of December 31, 2023 and 2022)	650,000	650,000
Stockholders' deficiency:		
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of December 31, 2023 and 2022 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of December 31, 2023 and 2022 (aggregate liquidation preference of $7,626,907 and $7,284,673 as of December 31, 2023 and 2022, respectively)	517	517
Common stock – par value $0.001 per share; 175,000,000 shares authorized as of December 31, 2023 and 2022; 55,862,980 and 55,239,452 shares issued and 54,683,768 and 54,060,240 shares outstanding as of December 31, 2023 and 2022, respectively	55,863	55,240
Additional paid-in capital	37,864,102	36,721,616
Treasury stock, at cost, 1,179,212 shares as of December 31, 2023 and 2022	(3,419,715)	(3,419,715)
Accumulated deficit	(38,506,931)	(36,391,118)
Total stockholders' deficiency	(4,006,164)	(3,033,460)
Total liabilities and stockholders' deficiency	$ 3,208,506	$ 3,967,514

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

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

	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Total net sales	$ 20,283,336	$ 18,142,633
Cost of sales	8,109,419	6,201,282
Gross profit	12,173,917	11,941,351
Selling, general and administrative expenses	13,795,597	12,725,433
Loss from operations	(1,621,680)	(784,082)
Interest expense, net	(151,900)	(164,115)
Net loss before income tax expense	(1,773,580)	(948,197)
Income tax expense	-	(3,832)
Net loss	(1,773,580)	(952,029)
Preferred stock:		
Series B convertible preferred stock contractual dividends	(342,233)	(342,233)
Net loss attributable to common stockholders	$ (2,115,813)	$ (1,294,262)
Per share data:		
Net loss – basic and diluted	$ (0.03)	$ (0.01)
Series B convertible preferred stock contractual dividends	(0.01)	(0.01)
Net loss attributable to common stockholders - basic and diluted	$ (0.04)	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	54,397,354	53,207,093

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 TWELVE MONTHS ENDED DECEMBER 31, 2023 AND 2022

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Shares	Amount	Deficit	Deficiency
Balances, January 1, 2022	9,000	$ 900,000	517,359	$ 517	53,207,687	$ 53,207	$ 35,677,572	1,179,212	$ (3,419,715)	$ (35,096,856)	$ (2,785,275)
Stock-based compensation, including options	-	-	-	-	411,176	412	771,665	-	-	-	772,077
Common shares issued for previously accrued compensation	-	-	-	-	150,000	150	23,850	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(342,233)	(342,233)
Conversion of Series C Preferred shares to Common shares	(2,500)	(250,000)			1,470,589	1,471	248,529				250,000
Net loss	-	-	-	-	-	-	-	-	-	(952,029)	(952,029)
Balances, December 31, 2022	6,500	$ 650,000	517,359	$ 517	55,239,452	$ 55,240	$ 36,721,616	1,179,212	$ (3,419,715)	$ (36,391,118)	$ (3,033,460)
Balances, January 1, 2023	6,500	$ 650,000	517,359	$ 517	55,239,452	$ 55,240	$ 36,721,616	1,179,212	$ (3,419,715)	$ (36,391,118)	$ (3,033,460)
Stock-based compensation, including options	-	-	-	-	482,352	482	899,768	-	-	-	900,250
Common Shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(342,233)	(342,233)
Net loss	-	-	-	-	-	-	-	-	-	(1,773,580)	(1,773,580)
Balances, December 31, 2023	6,500	$ 650,000	517,359	$ 517	55,862,980	$ 55,863	$ 37,645,243	1,179,212	$ (3,419,715)	$ (38,506,931)	$ (4,225,023)

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

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

	For the Year Ended December 31	
	2023	2022
Cash flows from operating activities		
Net loss	$ (1,773,580)	$ (952,029)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	253,723	138,624
Stock-based compensation	924,250	796,077
Amortization of debt discount	12,990	38,971
Write down of inventory to net realizable value	61,000	177,814
Amortization of operating lease right of use asset	92,650	86,124
Bad debt expense	427,726	-
Changes in operating assets and liabilities:		
Accounts receivable	(188,282)	(699,191)
Inventories	(67,634)	(399,044)
Prepaid expenses and other current assets	15,988	2,757
Accounts payable	93,397	136,397
Accrued expenses and other current liabilities	82,209	137,620
Operating Lease Liabilities	(98,274)	(88,573)
Net cash used in operating activities	(163,837)	(624,453)
Cash flows from investing activities		
Capital expenditures	(55,881)	(240,851)
Software and website development costs	(254,089)	(272,000)
Net cash used in investing activities	(309,970)	(512,851)
Net decrease in cash	(473,807)	(1,137,304)
Cash and cash equivalents - beginning of year	1,041,766	2,179,070
Cash and cash equivalents - end of year	$ 567,959	$ 1,041,766
Cash paid for:		
Interest	$ 154,000	$ 132,000
Income Taxes	$ -	$ 7,347
Non-cash investing and financing activities:		
Accrual of contractual dividends on Series B convertible preferred stock	$ 342,233	$ 342,233
Common stock issued to satisfy accrued directors' fees	$ 96,000	$ 96,000
Options issued to satisfy accrued directors' fees	$ 160,000	$ 160,000
Warrants issued in connection with convertible notes payable	$ 20,000	$ -
Conversion of shares of Series C Preferred to common share	$ -	$ 250,000
Operating lease right-of-use asset	$ -	$ 278,655
Operating lease liability, current and non-current	$ -	$ 295,623

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statement.

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“ ("”TC") medications and products.

2. Liquidity and Capital Resources

The Company’s working capital deficiency increased from $1,489,240 at December 31, 2022 to $2,740,186 as of December 31, 2023 and the stockholder deficiency increased from $3,033,460 at December 31, 2022 to $4,006,164 as of December 31, 2023. For the year ended December 31, 2023, the Company had a net loss of $1,773,580 and net cash used by operating activities of $163,837. As of December 31, 2023, the Company had cash and liquid investments totaling $567,959.

On December 31, 2023, the Company extended the maturity date of the Convertible Notes to April 20, 2025, which reduced its current obligations as of December 31, 2023. The primary component of the Company’s remaining current obligations is the accrued dividends totaling $2,737,864 to the holders of the Series B Preferred shares. The dividends continue to accrue as Company is restricted from paying dividends if there is no surplus in equity per Delaware law. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company’s discretion, when allowable under Delaware law.

Although there was net cash used by operating activities in 2023, the Company believes it has sufficient cash balances. The Company anticipates improvement in cash from operations as (i) its 2023 results were negatively impacted from various exceptional expenses that will not be recurring in 2024 and (ii) the Company expects its 2024 sales to increase from two recently executed pharmacy provider agreements that could generate an additional $5.0 million of revenue. Therefore, the Company is anticipating an improvement in cash from operations and cash balances in 2024.

Management believes its plans and expected improvement in cash from operations alleviate the substantial doubt about the Company’s ability to continue as a going concern. As such, the Company believes that its current financial resources are sufficient to satisfy the Company’s estimated liquidity needs for at least twelve months from the date of issuance of these consolidated financial statements.

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

Basis of Presentation

The Company operates in one segment considering the nature of the Company’s products and services, methods used to distribute the product and the regulatory environment in which the Company operates. The Company has chosen to round certain dollar amounts within this Annual Report and in these notes to the consolidated financial statements for simplicity of presentation.

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. Hocks.com, Inc., 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 net sales 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.

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, 2023 and 2022, the Company had money market accounts held at banks and other financial institutions which are classified as cash equivalents.

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 direct-to-consumer (B2C) business, its largest business segment, is that the majority of payments are received before the product is shipped. The Company does have accounts receivable related to its partner services business as it has extended terms to its partner services customers ranging from 10 to 45 days. If the financial conditions of partner services customers were to materially deteriorate, an increase in the allowance amount could be required. The allowance for doubtful accounts considers several factors, including historical collection and credit loss experience, current and expected economic trends, estimates of forecasted write-offs, aging of the accounts receivable, and other factors. During the year ended December 31, 2023, the Company experienced a credit loss of $427,726 related to one partner services customer that filed bankruptcy in the fourth quarter of 2023 after year long negotiations to acquire certain assets of the company failed to result in a transaction. As a result, the company recorded the amount as bad debt expense in the fourth quarter of 2023. All other partner services customers are paying on time or within a reasonable variance of the credit terms extended. In addition, the Company is not aware of any economic trends that would have a significant impact on the creditworthiness of the remaining partner services customers. Therefore, the Company has determined that an allowance for doubtful accounts was not necessary as of December 31, 2023 and 2022.

Inventories

The Company's inventory is comprised of finished goods. 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. During the years ended December 31, 2023 and 2022, the Company wrote down the value of certain inventory items to net realizable value resulting in reductions in the inventory value of those items of $61,000 and $177,814, respectively. 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. For the years ended December 31, 2023 and 2022, the Company did not record any impairment of property and equipment.

Leases

The Company determines if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets are included in right-of-use assets on the consolidated balance sheets. The current and long-term components of operating lease liabilities are included in the current operating lease liabilities and noncurrent operating lease liabilities, respectively, on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. The Company uses the rate implicit in the lease or an incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Certain leases may include options to extend or terminate the lease. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment 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. For the years ended December 31, 2023 and 2022, the Company did not record any impairment of long-lived assets.

Software and Website Development Costs

The Company capitalizes costs associated with the development of its proprietary software and website for internal use in accordance with ASC 350 – Intangibles, Goodwill and Other. During the years ended December 31, 2023 and 2022, the Company capitalized $254,089 and $272,000, respectively, of website development costs. The Company began to amortize the software and website development costs on a three year straight-line basis beginning in June 2023 as the related software was substantially completed and implemented. Amortization expense for the above capitalized costs is recognized in selling, general and administrative expenses and totaled $44,344 for the year ended December 31, 2023.

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 fair value of the Company's assets and liabilities, which qualify as financial instruments under ASC Topic 820, "Fair Value Measurement", approximates the carrying amounts reported in the accompanying balance sheets, primarily due to their short-term nature.

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, 2023 and 2022. 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, 2023 and 2022.

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

The Company records revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, by analyzing exchanges with its customers using a five-step analysis: (i) identify the contract, (ii) identify performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price and (v) recognize revenue.

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

The Company records an estimate for provisions of discounts and other adjustments for its product shipments and are reflected as contra revenues in arriving at reported net revenues. The Company's discounts are known at the time of sale; correspondingly, the Company reduces gross product sales for such discounts. The Company's returns have historically been immaterial, therefore, the Company does not record a provision for returns.

The Company has determined that there is one performance obligation, which is the shipment and delivery of the product; this performance obligation is transferred at a discrete point in time. The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for the product or service. For all customers, revenue is recognized at a point-in-time (at the time the medication is shipped or at the time the fulfillment or other service is performed) based on the agreed upon terms with each customer when customer has control. The Company defers revenue when cash has been received from the customer, but shipment has not yet occurred. Such amounts are reflected as deferred revenues within accrued expenses in the accompanying consolidated financial statements.

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the Company for partner services are either prepaid by the customer or paid by check or electronic funds transfer upon receipt of a monthly invoice. The Company extends terms to some partner services customers ranging from 10 to 45 days.

The Company receives upfront payments to offset set up costs related to new partner services contracts, which may include engineering time, setting up workflow, and purchasing computer equipment for a dedicated processing station. The setup costs are incurred to generate and/or enhance resources that will be used to satisfy performance obligations of the customer in the future through the services provided via the contract entered into with the customer. As such, the set up costs are recorded as deferred revenue and recognized over the term of the contract with the customer. The Company had $12,500 and $14,333 of these costs included in the deferred revenue balance at December 31, 2023 and 2022, respectively.

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

Disaggregation of Net Sales

Net sales are primarily generated through the sale of over-the-counter medication, prescription medication and medical devices (i) sold directly to consumers through the Company's website and call center ("B2C") and (ii) through fulfillment and other services provided to other healthcare providers and manufacturers ("Partner Services"). The following table summarizes net sales for the years ended December 31, 2023 and 2022.

	For the years ended December 31,	
	2023	**2022**
B2C Sales	$13,558,868	$13,160,691
Partner Services Sales	6,703,096	4,933,822
Other Sales	21,372	48,120
Total Sales	$20,283,336	$18,142,633

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company (i) has received customer deposits from the customer but has not yet provided the fulfillment services and (ii) has received an upfront payment from the customer to cover set up costs including equipment and engineering resources. The Company had total contract liabilities of $80,125 and $45,183 recorded in accrued expenses as of December 31, 2023 and 2022, respectively, which were comprised of (i) customer deposits of $67,625 and $30,850 as of December 31, 2023 and 2022, respectively, which represented refundable customer deposits that were recorded as deferred revenue and (ii) deferred revenue of $12,500 and $14,333 as of December 31, 2023 and 2022, respectively, related to upfront payments received from customers that are being amortized over the term of the contract. During the years ended December 31, 2023 and 2022, the Company recognized net sales of $16,833 and $43,667, respectively, related to the amortization of the upfront payments. Other than accounts receivable, there were no contract assets as of December 31, 2023 and 2022.

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 $2,304,927 and $2,060,600 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022 were $331,806 and $352,692, respectively.

Advertising and Marketing Expenses

The Company expenses all advertising and marketing costs as incurred which was $1,067,081 and $1,757,696 for the years ended December 31, 2023 and 2022, respectively, and recorded in selling, general and administrative expenses.

Sales Taxes

The net sales of the Company do not include sales tax imposed on its goods and services because the Company is a pass-through conduit for collecting and remitting sales taxes. Beginning in 2018 and continuing into 2023, 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 Loss Per Share of Common Stock

Basic net 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 loss per share includes potentially dilutive securities such as outstanding options, warrants and convertible notes, using the if-converted method in the determination of dilutive shares outstanding during each reporting period.

	December 31	
	2023	**2022**
Net loss attributable to common shareholders	$ (2,115,813)	$ (1,294,262)
Weighted-average common shares, basic and diluted	54,397,354	53,207,093
Net loss per common share, basic and diluted	$ (0.04)	$ (0.02)

The following table sets forth potential common shares issuable upon the exercise of outstanding options, the exercise of warrants and the conversion of preferred stock and notes, all of which have been excluded from the computation of diluted weighted average shares outstanding as they would be anti-dilutive:

	December 31,	
	2023	**2022**
Options	21,773,925	15,834,335
Warrants	940,127	764,000
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Convertible Redeemable Preferred Stock *	5,909,091	5,000,000
Convertible Notes Payable	20,000,006	17,708,338
Total potentially dilutive shares	56,280,063	46,963,587

* The amount of Series C Convertible Redeemable Preferred Stock as if converted shares of 5,000,000 was calculated based on a conversion price of 80% of the 30 day weighted average closing price of $0.14 and $0.16 as of December 31, 2023 and 2022, respectively.

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.

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 sheets as of December 31, 2023 and 2022 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.

Risks and Uncertainties

Current Wars: Management continues to evaluate the impact of the current wars in Ukraine and Gaza on the industry and has concluded that it is reasonably possible that the wars could have a negative effect on the Company's financial position or results of its operations. Further, the impact of these actions and related sanctions on the world economy are not determinable as of the date of these financial statements and the specific impact on the Company's financial condition, results of operations, and cash flows is also not determinable as of the date of these financial statements.

Inflation Reduction Act Excise Tax: On August 16, 2022, the Inflation Reduction Act of 2022 (the "IR Act") was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its stockholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the "Treasury") has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax. Any share redemption or other share repurchase that occurs after December 31, 2022, in connection with a Business Combination, extension vote or otherwise, may be subject to the excise tax. Whether and to what extent the Company would be subject to the excise tax in connection with a Business Combination, extension vote or otherwise will depend on a number of factors, including (i) the fair market value of the redemptions and repurchases in connection with a Business Combination, extension or otherwise, (ii) the structure of a Business Combination, (iii) the nature and amount of any "PIPE" or other equity issuances in connection with a Business Combination (or otherwise issued not in connection with a Business Combination but issued within the same taxable year of a Business Combination) and (iv) the content of regulations and other guidance from the Treasury. In addition, because the excise tax would be payable by the Company and not by the redeeming stockholder, the mechanics of any required payment of the excise tax have not been determined. The foregoing could reduce the cash available on hand. The IR Act had limited to no impact on the results of operations and cashflows during the year ended December 31, 2023 nor the financial condition as of December 31, 2023.

Recently Issued Accounting Pronouncements

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. The Company adopted this standard effective January 1, 2023, which had no cumulative-effect adjustment to retained earnings as of the effective date.

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity". ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted earnings per share (EPS) calculation in certain areas. This standard is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company adopted ASU 2020-06 effective January 1, 2023 utilizing the modified retrospective method and the adoption had no impact on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures". ASU 2023-09 is intended to enhance the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 address investor requests for enhanced income tax information primarily through changes to the rate reconciliation and income taxes paid information. A public entity should apply the amendments in ASU 2023-09 prospectively to all annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025 Early adoption and retrospective application are permitted. The Company has not adopted ASU 2023-09 and does not know the impact it will have on its consolidated financial statements and related disclosures.

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

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2023	December 31, 2022	Useful Life (Years)
Computer Software	$ 547,566	$ 420,378	5 years
Equipment	1,314,022	1,310,279	10 years
Office Furniture and Equipment	132,845	132,845	7 years
Computer Hardware	103,136	50,997	5 years
Leasehold Improvements	250,115	250,115	(a)
Total	2,347,684	2,164,614	
Less: Accumulated Depreciation	(1,436,957)	(1,227,578)	
Property and Equipment, Net	$ 910,727	$ 937,036	

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

Depreciation and amortization expense for the above assets for the years ended December 31, 2023 and 2022 was $253,723 and $138,624, respectively.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2023	December 31, 2022
Salaries and Benefits	$ 197,256	$ 192,279
Sales Tax Payable	179,970	132,423
Accounting	136,200	114,938
Deferred Revenue	82,377	52,307
Accrued Corporate & Property Taxes	71,776	47,511
Accrued Director Fees	64,000	64,000
Advertising	38,090	57,900
Accrued Legal	37,080	19,000
Accrued Interest	28,435	28,435
Accrued Shipping	-	28,850
Other	448	15,780
.	$ 835,632	$ 753,423

6. Notes Payable

Notes payable consisted of the following:

	December 31, 2023	December 31, 2022
Convertible Promissory Note	2,200,000	2,200,000
Less debt discount	(218,859)	(12,990)
Total debt	1,981,141	2,187,010
Less current portion	-	-
Long-term debt, less current portion	$ 1,981,141	$ 2,187,010

Convertible Promissory Notes

The Company executed convertible note purchase agreements (the "Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the "Convertible Notes") (collectively the "Convertible Note Agreements"). Under the terms of the Convertible Notes, the Company borrowed an aggregate of $2,200,000 from a group of eleven investors. The Convertible Notes bear interest on the unpaid principal balance until the full amount of principal has been paid or converted to common shares at a fixed rate equal to 6% per annum. Under the terms of the Convertible Notes, the Company has agreed to make quarterly payments of accrued interest on the last day of every calendar quarter beginning on March 31, 2020. The principal amount and all unpaid accrued interest on the Convertible Notes was originally payable on April 30, 2022, which was extended annually and effective December 31, 2023 was extended to April 30, 2025 as noted below. As of December 31, 2023, the outstanding principal balance on the Convertible Promissory Notes was $2,200,000 and accrued interest was $0.

At any time prior to the maturity date, each purchaser may convert their Convertible Note balance, in whole or in part, into shares of the Company's common stock at conversion rates ranging between $0.12 and $0.14 per share (the "Conversion Rate") which was the 30-day weighted average closing share price on the closing dates. The Company may initiate the conversion of the Convertible Notes at any time prior to the maturity date in the event that the 60-day weighted average price of a share of the Company's common stock as reported on OTC Markets exceeds $0.30 per share. The Conversion Price is subject to adjustment in the event of future dilutive transactions.

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. 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 an aggregate of $1,661,969 of cash proceeds, net of costs associated with the transaction, including $500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. 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 Millenium 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 note in the Convertible Notes transaction is a related party transaction.

The Company incurred costs associated with the issuance of the Convertible Promissory Notes which totaled $38,031 which was recognized as a debt discount. The debt discount was amortized using the effective interest method over the term of the Convertible Promissory Note.

The Company received a waiver on February 10, 2020 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, 2024 and increase the limitation on indebtedness from $2,500,000 to $3,000,000, the Series B Preferred shareholders were issued 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 which was the 30-day weighted average closing share price on the grant date and had an aggregate grant date value of $57,509 which was recognized as a debt discount. The debt discount was amortized using the effective interest method over the term of the Convertible Note.

Effective December 31, 2021, the Company entered into amendments to the Convertible Purchase Agreements (the "Amendments to the Convertible Notes") and issued amended and restated Convertible Promissory Notes (the "Amended Notes") to the Convertible Note investors, whereby the maturity dates of the notes were extended to April 30, 2023. As part of the agreement to extend of the maturity date, the Company agreed to issue warrants to the holders to purchase 1,500 shares of common stock for each $25,000 increment of their convertible note. On December 31, 2021, warrants to purchase an aggregate of 132,000 shares of common stock were issued to the holders of the Convertible Notes. The warrants were issued at exercise prices ranging between $0.12 and $0.14, matching the conversion prices of the underlying Convertible Note. The 30-day weighted average closing share price on the grant date was $0.15. The warrants have a term of five years and an aggregate grant date value of $20,213 which was recognized as a debt discount on the grant date. The debt discount was amortized using the effective interest method over the term of the Convertible Promissory Note.

On December 31, 2021, the Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Amendment to the Convertible Notes. As part of the agreement to extend the waiver of the debt limitation to April 30, 2023 and maintain the limitation on indebtedness at $3,000,000, the Series B Preferred shareholders were issued warrants to purchase 132,000 shares of common stock at an exercise price equal to $0.12 per share. The 30-day weighted average closing share price on the grant date was $0.15. The warrants have a term of five years and an aggregate grant date value of $20,230 which was recognized as a debt discount on the grant date. The debt discount was amortized using the effective interest method over the term of the Convertible Note.

It was determined that the debt was not substantially different as a result of the amendment, therefore, it was accounted for as a modification of debt.

Effective December 31, 2022, the Company entered into amendments to the Convertible Purchase Agreements (the "Second Amendments to the Convertible Notes") and issued amended and restated Convertible Promissory Notes (the "Amended Notes") to the Convertible Note investors, whereby the maturity dates of the notes were extended to April 30, 2024. As part of the agreement to extend of the maturity date, the Company agreed to increase the interest rate from 6% to 7%, effective December 31,2022.

On December 31, 2022, the Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Amendment to the Convertible Notes. The waiver extended the limitation on indebtedness of $3,000,000 to April 30, 2024.

It was determined that the debt was not substantially different as a result of the amendment, therefore, it was accounted for as a modification of debt.

Effective December 31, 2023, the Company entered into amendments to the Convertible Purchase Agreements (the "Third Amendments to the Convertible Notes") and issued amended and restated Convertible Promissory Notes (the "Amended Notes") to the Convertible Note investors, whereby the maturity dates of the notes were extended to April 30, 2025. As part of the agreement to extend the maturity date, the Company agreed to change the existing conversion rates from $0.12 and $0.14 per share to $0.11 per share. Because the conversion rate was set below the 30-day weighted average closing share price of $0.14 at the time of the amendment, the change in the conversion rate represents a change in the fair value of the conversion option. At the amended conversion rate, an incremental 2,291,668 shares of common stock are issuable at conversion of the Convertible Notes as compared to the original terms. Utilizing the Black-Scholes option pricing model, the increase in value of the embedded conversion option due to the change in the conversion rate was $198,859, which is being recognized as a debt discount and will be amortized over the term of the Convertible Note.

On December 31, 2023, the Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Amendment to the Convertible Notes. The waiver extended the limitation on indebtedness of $3,000,000 to April 30, 2025. As part of the agreement to extend the waiver of the debt limitation to April 30, 2025 and maintain the limitation on indebtedness at $3,000,000, the Series B Preferred shareholders were issued warrants to purchase 176,127 shares of common stock at an exercise price equal to $0.13 per share. The 30-day weighted average closing share price on the grant date was $0.13. The warrants have a term of five years and an aggregate grant date value of $20,000 which was recognized as a debt discount on the grant date. The debt discount is being amortized using the effective interest method over the term of the Convertible Note.

It was determined that the debt was not substantially different as a result of the amendment, therefore, it was accounted for as a modification of debt.

7. **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 has an option to extend the term by three years, however, the Company determined that it was not reasonably certain to exercise the renewal option and such renewal was excluded from the operating lease right-of-use, or ROU, asset and operating lease liability recorded for this lease.

The Company is responsible for real estate taxes, maintenance and other operating expenses applicable to the leased premises which are recognized as variable lease expense in the period when incurred.

This lease is classified as an operating lease and is included in operating lease ROU assets and operating lease liabilities. Since the Company's lease did not provide an implicit rate, the Company used its estimated incremental borrowing rate based on the lease term and other information available at the commencement date in determining the present value of lease payments.

Supplemental balance sheet information as of December 31, 2023 is as follows:

Operating lease right-of-use assets	$	278,655
Accumulated amortization		(178,775)
Net operating right-of-use-assets	$	99,880
Current operating lease liabilities	$	108,776
Noncurrent operating lease liabilities		0
Total operating lease liabilities	$	108,776
Weighted-average remaining lease term (years)		1.0
Weighted-average discount rate		7.0%

The aggregate future minimum lease payments for operating leases as of December 31, 2023 were as follows:

2024		112,318
Total gross lease payment	$	112,318
Less: Imputed interest		(3,542)
Total lease liabilities, reflecting present value of future minimum lease payments	$	108,776

During the years ended December 31, 2023 and 2022, the Company recorded aggregate lease expense was $153,170 and $162,447, respectively.

8. Stockholders' Deficiency

The Company is authorized to issue up to 175,000,000 shares of common stock with a par value of $0.001 per share and 1,000,000 shares of preferred stock with a par value of $0.001 per share. In July 2022, the authorized shares of common stock was increased from 125,000,000 to 175,000,000 following the approval of the Board of Directors and stockholders and the Company subsequently filed a Certificate of Amendment with the Secretary of State of Delaware, which was effective on July 28, 2022.

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders of the Corporation approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

OTC Market Tier Change

On April 14, 2017, the Company filed a Form 15 with the Securities and Exchange Commission terminating the registration of its common stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. The Company transitioned to the OTC Pink Sheets – Current Information tier of the OTC Market on July 10, 2017. On May 11, 2021, the Company was approved for listing and began trading on the OTCQB Market.

Common Stock

During the years ended December 31, 2023 and 2022, the Company issued an aggregate of 623,528 and 561,716 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 values of $96,000 for the years ended December 31, 2023 and 2022, of which $24,000 had been accrued and included in accrued expenses and other current liabilities at December 31, 2022 and 2021. The shares were valued at the 30-day weighted average closing share price on the grant date which ranged between $0.12 and $0.17 per share in 2023 and between $0.16 and $0.20 in 2022.

During the year ended December 31, 2022, the Company issued an aggregate of 1,470,589 shares of common stock to the holders of the Series C Preferred Stock related to the holders' election to convert 2,500 of their Series C Preferred shares which had a principal amount of $250,000. The conversion was affected at $0.17 per share. See Preferred Stock – Series C Preferred Stock below.

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 $96,000 for the years ended December 31, 2023 and 2022. Stock-based compensation of $24,000 is included in accrued expenses as other liabilities as of December 31, 2023 and 2022.

Preferred Stock

Series A Preferred Stock

The Company had designated 200,000 of the 1,000,000 authorized shares of preferred stock as Series A Convertible Preferred Stock ("Series A Preferred Stock"). 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 of the Company 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, 2023 and 2022, Series B holders were entitled to convert into 14.8 shares of the Company's common stock for each share of Series B Preferred Stock. The investor rights agreement of the Company's Series B preferred shares limits the total debt of the Company to $1 million. See Note 6 for the waivers of the limitation of debt to April 30, 2025.

As of December 31, 2023 and 2022, the Company had accrued contractual dividends of $2,737,864 and $2,395,631, 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 not entitled to 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. The Company's Series C preferred shares are considered to be an equity host with a conversion option that is clearly and closely related to the equity host. However, the Series C Preferred shares contain redemption rights which are not solely within the Company's control, therefore, the Series C Preferred stock is presented as temporary equity. On February 13, 2013, the Company received a Notice of Redemption of Series C Preferred Stock.

On October 29, 2020, the Company entered into a Conversion and Standstill Agreement (the "Agreement") with the holders of $1,000,000 principal amount of the Company's Series C Preferred Stock (10,000 shares). Pursuant to the terms of the Agreement, the holders agreed (i) to retract the redemption request previously submitted in 2013 to the Company, (ii) not to issue a redemption notice until after October 29, 2022 and (iii) to convert up to $100,000 of the Series C Preferred Stock valued at its original issue price of $100.00 per share into shares of the Company's common stock at a conversion price of $0.18 per share. In addition, the holders may elect to convert up to $200,000 of the Series C Preferred Stock valued at its original issue price into shares of common stock of the Company each calendar quarter in 2021 and $250,000 each calendar quarter beginning in 2022. The conversion price was $0.18 per share through December 31, 2021 and at 80% of the thirty (30) day weighted average closing price of a share of common stock on the OTC Market in 2022 and thereafter. The Company, at its discretion, may initiate the conversion of the remaining outstanding shares of Series C Preferred Stock if the sixty (60) day weighted average closing price exceeds $0.45 per share and the cumulative trading volume during the same 60-day period exceeds 500,000 shares. The Agreement includes other terms, including provisions relating to change of control and terms related to stock splits, reorganizations, subsequent issuance of preferred stock and piggyback registration rights. On October 29, 2020, the Company received notice that the holders elected to convert 1,000 of the shares of the Series C Preferred Stock with a principal amount of $100,000 at the $0.18 conversion price into 555,557 shares of common stock to the holders and the number of outstanding shares of Series C Preferred Stock was reduced to 9,000 shares.

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

Incentive Compensation / Stock Option Plans

In 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 September 1, 2021 and May 8, 2023, 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 28,000,000 and 43,000,000, respectively. In addition, an extension of the term of the 2014 Plan was to April 19, 2033 was approved in May 2023.

Stock Options

Grants

The weighted average fair value of the stock options granted during the year ended December 31, 2023 was $0.12.

During the year ended December 31, 2023, the Company granted options to key employees and executives of the Company to purchase an aggregate of 5,100,000 shares of common stock under a previously approved plan at an exercise price $0.17 per share for an aggregate grant date value of $776,639. The options vest over a three-year period and have a term of ten years. Stock based compensation related to these grants for the year ended December 31, 2023 was $232,653.

During the year ended December 31, 2023, the Company granted options to directors of the Company to purchase an aggregate of 1,195,212 shares of common stock under a previously approved plan at exercise price ranging from $0.12 to $0.17 per share for an aggregate grant date value of $160,000. The options vested on the grant date and have a term of ten years. Stock based compensation related to these grants for the year ended December 31, 2023 was $160,000, of which $40,000 was included in accrued expenses and other liabilities as of December 31, 2022.

During the year ended December 31, 2022, the Company granted options to key employees and executives of the Company to purchase an aggregate of 4,700,000 shares of common stock under a previously approved plan at an exercise price of $0.16 per share for an aggregate grant date value of $728,354. The options vest over a three-year period and have a term of ten years. Stock based compensation related to these grants for the years ended December 31, 2023 and 2022 was $230,301 and $217,817, respectively.

During the year ended December 31, 2022, the Company granted options to directors of the Company to purchase an aggregate of 1,040,836 shares of common stock under a previously approved plan at exercise price ranging from $0.16 to $0.20 per share for an aggregate grant date value of $160,000. The options vested on the grant date and have a term of ten years. Stock based compensation related to these grants for the year ended December 31, 2022 was $160,000, of which $40,000 was included in accrued expenses and other liabilities as of December 31, 2021.

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the years ended December 31, 2023 and 2022, the Company used the following weighted average assumptions:

	Year Ended December 31	
	2023	**2022**
Risk-free interest rate	3.82% to 4.75%	1.59% to 4.12%
Expected dividend yield	0.0%	0.0%
Expected volatility	128.0% to 132.3%	132.0% to 175.0%
Weighted average expected life in years	5.0 to 6.0	5.0 to 6.0

The expected volatility is calculated using the historical volatility of our stock using the daily closing price of our shares. Forfeitures are accounted for as they occur. The expected life of our employee stock options are calculated by using the "simplified" method, whereby, the expected life equals the average of the vesting term and the original contractual term of the option. The risk-free interest rates were based on the U.S. Treasury yield curve in effect during the period the options were granted and based on a maturity similar to the expected life of the option. The stock price used on the grant date was calculated using the 30-day weighted average closing share price on the grant date which ranged between $0.12 and $0.17 per share in 2023 and between $0.16 and $0.20 in 2022.

Stock-based compensation expense related to stock options was recorded in the consolidated statements of operations as a component of selling, general and administrative expenses and totaled $828,250 and $700,078 for the years ended December 31, 2023 and 2022, respectively. Stock-based compensation of $40,000 is included in accrued expenses and other liabilities as of December 31, 2023.

As of December 31, 2023, stock-based compensation expense related to stock options of $823,084 remains unamortized which is being amortized over the weighted average remaining period of 1.7 years.

Summary

A summary of the stock option activity during the years ended December 31, 2023 and 2022 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2022	10,313,044	$ 0.21		
Granted	5,740,836	0.15		
Exercised	-	-		
Forfeited	(223,333)	1.26		
Outstanding, January 1, 2023	15,830,547	$ 0.18		
Granted	6,295,212	0.16		
Exercised	-	-		
Forfeited	(351,834)	0.30		
Outstanding, December 31, 2023	21,773,925	$ 0.17	7.4	$ 101,524
Exercisable, December 31, 2023	12,623,921	$ 0.18	6.7	$ 101,524

The following table presents information related to stock options outstanding and exercisable at December 31, 2023:

	Options Outstanding		Options Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$0.09 - \$0.20	$ 0.16	19,490,317	$ 0.15	7.1	10,340,313
\$0.22 - \$0.36	$ 0.32	2,283,608	$ 0.32	4.6	2,283,608
\$0.09 - \$0.36	$ 0.17	21,773,925	$ 0.18	6.7	12,623,921

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Warrants

Valuation

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

	Year Ended December 31	
	2023	2022
Risk-free interest rate	3.84%	n/a
Expected dividend yield	0.00%	n/a
Expected volatility	132.2%	n/a
Weighted average expected life (contractual term) in years	5.0	n/a

The expected volatility is calculated using the historical volatility of our stock using the daily closing price of our shares. The expected life of the warrants is based on the original contractual term of the warrant. The risk-free interest rates were based on the U.S. Treasury yield curve in effect during the period the warrants were granted and based on a maturity similar to contractual term of the warrant. The stock price used on the grant date was calculated using the 30-day weighted average closing share price on the grant date which was $0.13 per share in 2023.

Grants

During the year ended December 31, 2023, the Company issued warrants to purchase an aggregate of 176,127 shares of common stock to the holders of the Series B Preferred as part of the agreement to extend the waiver of the debt limitation. The warrants were issued at an exercise price of $0.13 which was the 30-day weighted average closing share price on the grant date. The warrants have a term of five years and an aggregate grant date value of $20,000 which was recognized as a debt discount on the grant date. See Footnote 6 – Notes Payable.

There were no warrants issued during the year ended December 31, 2022.

A summary of the stock warrant activity during the years ended December 31, 2023 and 2022 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2022	1,162,367	$ 0.33		
Granted	-	-		
Exercised	-	-		
Forfeited	(398,367)	0.74		
Outstanding, January 1, 2023	764,000	$ 0.11		
Granted	176,127	0.13		
Exercised	-	-		
Forfeited	-	-		
Outstanding, December 31, 2023	940,127	$ 0.12	2.4	$ 21,411
Exercisable, December 31, 2023	940,127	$ 0.12	2.4	$ 21,411

The following table presents information related to stock warrants at December 31, 2023:

	Warrants Outstanding		Warrants Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
$0.11 - $0.14	$ 0.12	940,127	$ 0.12	2.4	940,127

9. Commitments and Contingent Liabilities

Employment Agreement

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts (the "Employment Agreements"). The terms of the Employment Agreements include a term of one year beginning on January 1, 2020 with an extension provision allowing for automatic one-year extensions unless the Company or the employee provides advanced written notice of non-renewal, the titles and positions of Chief Executive Officer and Chief Financial Officer, respectively, an initial base salary of $128,000 and $124,000 per year, respectively, subject to certain bonus and severance provisions. Effective January 1, 2023, the Compensation Committee approved an increase in the base salaries for Mr. Peters and Mr. Seliga to $162,000 and $158,000 per year, respectively. Each of the officers are bound by restrictive covenants contained in the Employment Agreements regarding disclosure of confidential information, non-solicitation and employee non-competition.

On February 8, 2023, Mr. Peters and Mr. Seliga were granted options to purchase 1,000,000 and 800,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of $0.17 per share for an aggregate grant date value of $274,108. The options vest over a three-year period and have a term of ten years. On January 28, 2022, Mr. Peters and Mr. Seliga were granted options to purchase 1,000,000 and 800,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of $0.15 per share for an aggregate grant date value of $278,941. The options vest over a three-year period and have a term of ten years.

On January 17, 2024, Mr. Peters and Mr. Seliga were granted options to purchase 4,200,000 and 3,600,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of $0.13 per share for an aggregate grant date value of $274,108. 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 6,000,000 shares of common stock that were issued to replace options previously issued to executives in 2021, 2022 and 2023. See Footnote 12 – Subsequent Events.

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 March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges the Company conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys' fees. After retaining local counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company's motions. On July 10, 2023, the Company filed a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company's motions to which the Company replied on August 15, 2023. On August 15, 2023, the Judge granted the Company's Motion to Dismiss all claims on the basis that the plaintiff had failed to adequately allege personal jurisdiction over the Company. The Plaintiff amended their complaint on September 4, 2023 and the Company filed a renewed motion to dismiss on September 18, 2023. Plaintiff's opposition to our motion was filed on October 30, 2023 and the Company filed a response on November 6, 2023. The matter is fully briefed and before the Court. The Company believes the Complaint is without merit and intends to contest this matter vigorously.

10. Concentrations

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

During the year ended December 31, 2023, two customers represented 9% and 6% of total sales. During the year ended December 31, 2022, one customer represented 9% of total sales.

Three customers represented 25%, 24%, and 22% of the accounts receivable balance as of December 31, 2023. Three customers represented 46%, 15%, and 10% of the accounts receivable balance as of December 31, 2022. The customers noted above are related to Partner Services sales.

During the year ended December 31, 2023, three suppliers represented 35%, 26% and 12% of total inventory purchases. During the year ended December 31, 2022, the same three suppliers represented 33%, 32% and 11% of total inventory purchases.

Two vendors represented 26% and 16% of the accounts payable balance as of December 31, 2023. One vendor represented 45% of the accounts payable balance at December 31, 2022.

11. Related Party Transactions

The Company executed convertible note purchase agreements (the"Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the "Convertible Notes") (collectively the "Convertible Note Agreements"). The Company received an aggregate of $1,661,969 of cash proceeds, net of costs associated with the transaction, including $500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA, in 2020. 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 Millenium 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. See Note 6 – Notes Payable.

Joe Heimbrock, a director of the Company, is the manager member of MVI Partners LLC. MVI Partners LLC is the majority owner of the Series B Preferred shares. When combined, Mr. Heimbrock and MVI Partners LLC beneficially own more than 5% of the Company. As such, MVI Partners LLC is deemed to be a related party to the Company.

The Company entered into an agreement with Mannix Marketing, Inc. in March 2023 to provide various marketing services including digital advertising and branding. During 2023, Mannix Marketing invoiced $33,000 to the Company for those services which was included in selling, general and administrative expenses, of which the Company paid $28,500 as of December 31, 2023. Sarah Mannix is President of Mannix Marketing, Inc. and is a director of the Company. As such, the services provided by Mannix Marketing are related party transactions.

12. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2023 and 2022 was as follows:

	For The Years Ended December 31, 2023	For The Years Ended December 31, 2022
Federal:		
Current	$ -	$ -
Deferred	(202,032)	(108,370)
State and local:		
Current	-	3,832
Deferred	(12,103)	(2,085)
	(214,135)	(106,623)
Change in valuation allowance	214,135	110,455
Income tax provision (benefit)	$ -	$ 3,832

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2023 and 2022 are as follows:

	December 31,	
	2023	**2022**
Deferred tax assets:		
Net operating loss carryforwards	$ 4,188,591	$ 4,025,055
Stock-based compensation	368,221	334,893
Inventory reserves	1,451	1,461
Deferred revenue	3,293	4,407
Deferred rent	-	-
Accruals	69,321	13,409
Amortization of Debt Discount	-	30,406
Lease Liability	1,986	3,264
Total deferred tax assets	4,632,863	4,412,895
Valuation allowance	(4,564,821)	(4,350,686)
Deferred tax assets, net of valuation allowance	68,042	62,209
Deferred tax liabilities		
Property and equipment	(68,042)	(62,209)
Deferred tax liabilities	(68,042)	(62,209)
Net deferred tax assets	$ -	$ -
Change in valuation allowance	$ 214,135	$ 110,454

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, 2023 and 2022.

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 2019 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, 2023. When these returns are filed for the year ended December 31, 2023, the Company will have $18,112,893 and $17,388,528 of federal net operating loss (NOL's) carryforwards that may be available to offset future taxable income as of December 31, 2023 and 2022, respectively. The federal net operating loss carryforwards generated prior to 2018, if not utilized, will expire from 2027 to 2037. The federal net operating loss carryforwards generated in 2018 will carryforward indefinitely. As of December 31, 2023 and 2022, the Company had approximately $9,524,943 and $9,336,637 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. Such limitation would not have a material impact on the financial statements given that the deferred tax assets for the NOL's are fully offset by the valuation allowance.

For the years ended December 31, 2023 and 2022, the expected tax expense (benefit) based on the statutory rate is reconciled with the actual tax expense (benefit) as follows:

	For The Years Ended December 31,	
	2023	**2022**
US federal statutory rate	21.0%	21.0%
State tax rate, net of federal benefit	1.3%	1.5%
Permanent differences		
- Stock based compensation	(8.4%)	(12.8%)
- Other Permanent adjustments	(0.1%)	0.0%
Other true ups	(0.3%)	(0.6%)
Utilization of PY NOLs	0.0%	3.9%
Adjustment to PY NOLs	(1.6%)	(1.6%)
Impact of taxes based upon gross receipts	(0.6%)	(1.7%)
Change in State Tax Rate	(0.1%)	0.0%
Change in valuation allowance	(12.1%)	(11.6%)
Income tax provision (benefit)	(0.9%)	(1.8%)

13. Subsequent Events

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

Issuance of Common Stock and Options to Directors

On January 15, 2024, the Company issued an aggregate of 184,616 shares of common stock and options to purchase 353,960 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 2023. The shares had an aggregate grant date value of $24,000 and were valued at $0.13 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options had an exercise price of $0.13 per share and had a grant date value of $40,000. The aggregate amount of the grant date value of the common stock and options is included in accrued expenses as other liabilities as of December 31, 2023.

Issuance of Options to Executives

On January 17, 2024, the Company granted stock options to purchase an aggregate of 7,800,000 shares of common stock under the 2014 Plan to executives of the Company as recognition of their contributions to the Company. The options had an exercise price of $0.13 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 $915,833. The options granted included options to purchase an aggregate of 6,000,000 shares of common stock that were issued to replace options previously issued to executives in 2021, 2022 and 2023.