<u>HEALTHWAREHOUSE.COM, INC.</u>

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, 2021

As of December 31, 2021, the number of shares outstanding of our Common Stock was 52,028,475.

As of September 30, 2021, the number of shares outstanding of our Common Stock was 51,895,143.

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 x7012

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 its purchase price. 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, 2021).
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 $900,000 on December 31, 2021. Redeemable after October 22, 2022. Convertible at option of holder into common shares at a conversion price of $0.18 per share through December 31, 2021 (limited to 2,000 shares per quarter); and 80% of the 30-day weighted average closing share price in 2022 (limited to 2,500 shares per quarter). Mandatory conversion if 60-day weighted average closing share price is $0.45 per share and minimum 60-day trading volume of 500,000 shares.

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

Security information as of December 31, 2021:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	125,000,000	52,028,475	11,607,956	182	252
Preferred Stock – Series B	790,000	517,359	-0-	2	2
Preferred Stock – Series C	10,000	9,000	-0-	3	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.

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 90 National Association of Boards of Pharmacy ("NABP") accredited digital pharmacies. In addition, the Company also provides fulfillment of prescription medication 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.

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 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.

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.

Employees

As of March 1, 2022, we employed 90 full-time employees and 14 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 and other services to customers of other healthcare providers.

Customers

Direct-to-consumer (B2C): We sell directly to individual consumers who purchase prescription medications and OTC products over the Internet. B2C revenues represented 90% and 85% of total revenues in 2020 and 2021, 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 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 8% and 15% of revenues in 2020 and 2021, respectively, and one customer represented 5% of total revenues during 2020 and 2021.

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, 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, 2021.

Name	Title	2021 Compensation (1)	Beneficial Ownership
Joseph B. Peters	President and Chief Executive Officer, Director	Cash: $192,584 Options: $198,089 (1,200,000 shares at $0.17 per share)	Common: 283,463 shares Options: 1,832,666 shares Beneficial Ownership: 3.9%
Daniel J. Seliga	Chief Financial Officer	Cash: $183,584 Options: $198,089 (1,200,000 shares at $0.17 per share)	Common: 1,041,354 shares Options: 1,466,666 shares Beneficial Ownership: 4.7%
Tim Reilly	Director, Chairman	Cash: $12,000 Stock: $24,000 (131,960 shares at $0.17 to $0.20 per share) Options: $40,000 (228,339 shares at $0.17 to $0.20 per share)	Common: 4,522,813 shares Options: 376,159 shares Convertible Note of $1,000,000: convertible into 8,333,334 common shares Beneficial Ownership: 21.8%
Jack Britts	Director	Cash: $12,000 Stock: $24,000 (131,960 shares at $0.17 to $0.20 per share) Options: $40,000 (228,339 shares at $0.17 to $0.20 per share)	Common: 605,447 shares Options: 376,159 shares Beneficial Ownership: 1.9%
Joseph Heimbrock	Director	Cash: $12,000 Stock: $24,000 (131,960 shares at $0.17 to $0.20 per share) Options: $40,000 (228,339 shares at $0.17 to $0.20 per share)	Common: 1,861,897 shares Options: 406,887 shares Series B Preferred: 494,913 shares (convertible to 7,324,713 common shares) Beneficial Ownership: 16.7%
Sara Mannix	Director	Cash: $12,000 Stock: $24,000 (131,960 shares at $0.17 to $0.20 per share) Options: $40,000 (228,339 shares at $0.17 to $0.20 per share)	Common: 131,960 shares Options: 228,339 shares Beneficial Ownership: 0.7%

(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, 2021, 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
Cormag Holdings, LTD and Mark D. Scott, Director	>5%	104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6	5,699,929	Common	11.0%	11.0%
Dr. Bruce Bedrick	>5%	5375 Monterey Circle #32, Delray Beach, FL 33484	3,990,000	Common	7.5%	7.5%
Lalit Dhadphale	>5%	182 Uccello Drive, Las Vegas, NV 89138	3,022,479	Common	5.8%	5.8%
New Atlantic Venture Fund III, LP	>5%	73 Wayside Road, Concord, MA 01742	505,945	Common	1.0%	13.2%

Biographical Information of Executives and Directors

Joseph Peters, Chief Executive Officer, President and Director, age 36, 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 56, 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 58, 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 62, 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 7 Glen Falls Road, Ashville, NC 28804.

Sara Mannix, age 55, 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 66, 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 ten years, been the subject of:

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

   None

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

   None

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

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

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

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

None

Related Party Transactions

The Company was a party to a promissory note (the "Millennium Promissory Note") and a security agreement (the "Millennium Security Agreement") (collectively, the Millennium Promissory Note and the Millennium Security Agreement, the "Millennium Loan Agreements") with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA, which commenced in 2019. Under the terms of the Millennium Promissory Note, the Company borrowed an aggregate of $500,000 from Millennium (the "Millennium Loan"). The Millennium Promissory Note bore interest on the unpaid principal balance until the full amount of principal had been paid at a fixed rate equal to 10% per annum. Under the terms of the Millennium Promissory Note, the Company agreed to make monthly payments of accrued interest on the first day of every month. The principal amount of the Millenium Promissory Note was converted into a new loan in connection with the issuance of convertible notes detailed below on February 12, 2020 and all accrued interest was repaid on February 28, 2020. The Timothy E. Reilly IRA is owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium transaction is a related party transaction.

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

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.

12) Financial Statements

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

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

See PART II –CONSOLIDATED FINANCIAL STATEMENTS below.

13) Financial Statements for 2 prior fiscal years:

The Consolidated Financial Statements for fiscal years ended December 31, 2019 and 2020 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
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and

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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, 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. 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 products over the Internet. HealthWarehouse.com is currently 1 of 90 National Association of Boards of Pharmacy ("NABP") accredited digital pharmacies. In addition, the Company also provides fulfillment of prescription medication and other services 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 (HSA) 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 objectives are 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, 2021 Compared to The Year Ended December 31, 2020

	For year ended Ended December 31, 2021	% of Revenue	For year ended Ended December 31, 2020	% of Revenue
Net sales	$ 16,143,906	100.0%	$ 17,178,985	100.0%
Cost of sales	5,010,814	31.0%	5,831,003	33.9%
Gross profit	11,133,092	69.0%	11,347,982	66.1%
Selling, general & administrative	11,492,710	71.2%	11,397,106	66.3%
Loss from operations	(359,618)	(2.2%)	(49,124)	(0.3%)
Gain on debt forgiveness	-	0.0%	890,000	5.2%
Interest expense	(174,386)	(1.1%)	(199,550)	(1.2%)
Income (loss) before taxes	(534,004)	(3.3%)	641,326	3.7%
Income tax expense	(38,498)	(0.2%)	-	0.0%
Net income (loss)	$ (572,502)	(3.5%)	$ 641,326	3.7%

Net Sales

For year ended December 31, 2021	% Change	$ Change	For year ended December 31, 2020
$16,143,906	(6.0%)	($1,035,079)	$17,178,985

Net sales decreased from $17,178,985 for the year ended December 31, 2020 to $16,143,906 for the year ended December 31, 2021 , a decrease of $1,035,079, or 6.0%. Prescription sales were $13,729,966 for the year ended December 31, 2021, as compared to $13,404,587 for the year ended December 31, 2020, an increase of $325,379, or 2.4%, due to an increase in new partner services business, offset by a reduction in the direct-to-consumer (B2C) business. Over-the-counter net sales decreased by 36.7% from $3,347,395 in the year ended December 31, 2020 to $2,117,839 in the year ended December 31, 2021. The reductions in the B2C prescription and over-the-counter business were due to decreased website traffic and consumer demand relative to the unprecedented high levels experienced in 2020 during the early months of the COVID 19 pandemic.

The Company will continue to focus on and dedicate resources toward customer acquisition, conversion and retention while adding fulfillment partners in 2022.

Cost of Sales and Gross Margin

	For year ended December 31, 2021	% Change	$ Change	For year ended December 31, 2020
Cost of sales	$5,010,814	(14.1%)	(820,189)	$5,831,003
Gross margin $	$11,133,092	(1.9%)	(214,890)	$11,347,982
Gross margin %	69.0%	2.9%		66.1%

Cost of sales were $5,010,814 for the year ended December 31, 2021 as compared to $5,831,003 for the year ended December 31, 2020, a decrease of $820,189 or 14.1%, primarily as a result of the reduction in order volume and improved product acquisition costs realized through strategic purchasing efforts. Gross profit for the year ended December 31, 2021 was $11,133,091, a $214,891 or 1.9%, decrease when compared to the same period in 2020, due to the decrease in sales volume, offset by improved gross margins. Gross margin percentage increased year-over-year from 66.1% for the year ended December 31, 2020 to 69.0% for the year ended December 31, 2021, primarily due to the improved product acquisition costs discussed above and an increase in the sales of higher margin products in our core direct-to-consumer (B2C) and partner services sales.

Selling, General and Administrative Expenses

	For year ended December 31, 2021	% Change	$ Change	For year ended December 31, 2020
S,G&A	$11,492,710	0.8%	$95,604	$11,397,106
% of sales	71.2%			66.3%

Selling, general and administrative expenses totaled $11,492,710 for the year ended December 31, 2021 compared to $11,397,106 for the year ended December 31, 2020, an increase of $95,604, or 0.8%. For the twelve months ended December 31, 2021, increased expenses included (a) a $235,086 increase in stock-based compensation expense; (b) a $211,706 increase in salaries and related expenses (primarily increases in engineering, marketing and customer outreach staffing); (c) a $68,829 increase in accounting services expense; and (d) a $63,585 increase in employee benefits expense. The increases were partially offset by: (a) a $179,253 decrease in shipping and shipping supplies expenses; (b) a $147,811 decrease in advertising and marketing expenses; (c) a decrease in credit card fees of $79,806; and (d) a decrease of $56,258 in engineering expense.

Gain on Forgiveness of debt

During the year ended December 31, 2020, we recorded a gain of $890,000 related to the forgiveness of the Federal Paycheck Protection Program (PPP) loan that the Company received in May 2020.

Other Income and Expense

Net interest expense decreased from $199,550 in the year ended December 31, 2020 to $174,386 in the year ended December 31, 2021, a decrease of $25,164, or 12.6%, primarily due to lower interest rates on the Company's outstanding convertible notes than on the short-term notes payable outstanding during 2020 and interest income earned on excess cash balances. The decrease was partially offset by a $8,114 increase in amortization of debt discounts related to the issuance of convertible notes. Interest income was $3,682 and $2,814 for the years ended December 31, 2021 and 2020, respectively, as excess funds were invested in interest bearing money market accounts.

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 income (loss) to Adjusted EBITDA:

	For year ended December 31, 2021	2020
Net income (loss)	$ (572,502)	$ 641,326
Interest expense	174,386	199,550
Depreciation and amortization	134,855	133,576
EBITDA (non-GAAP)	(263,261)	974,452
Adjustments to EBITDA:		
Stock-based compensation	744,379	509,293
Gain on debt forgiveness	-	(890,000)
Gain on extinguishment of payables	(20,631)	-
Adjusted EBITDA	$ 460,487	$ 593,745

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

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2021 and 2020. We cannot assure you 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 $495,751 at December 31, 2020 to $572,045 as of December 31, 2021 and the stockholder deficiency increased from $2,655,362 at December 31, 2020 to $2,785,275 as of December 31, 2021. For the year ended December 31, 2021, the Company had a net loss of $572,502, but had net cash provided by operating activities of $400,506. As of December 31, 2021, the Company had cash and liquid investments totaling $2,179,070.

During 2020, the Company reduced its current obligations by completing a convertible note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred Stock and receiving forgiveness of its PPP loan. In 2021, the Company extended the original maturity date of the Convertible Notes to April 20, 2023, which reduced its current obligations as of December 31, 2021. The primary component of the Company's remaining current obligations is the accrued dividends totaling $2,053,398 to the holders of the Series B Preferred shares. 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. 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, 2021 and 2020, the Company had cash and restricted cash on hand of $2,179,070 and $1,865,425, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the year ended December 31, 2021, cash flows included net cash provided by operating activities of $400,506. This amount included a decrease in operating cash related to a net loss of $572,502, partially offset by aggregate non-cash adjustments of $904,671, plus aggregate cash provided by changes in operating assets and liabilities of $68,337 (primarily a result of an increase in accounts payable and accrued expenses and a decrease in receivables). For the year ended December 31, 2020, cash flows included net cash provided by operating activities of $250,869. This amount included an increase in operating cash related to net income of $641,326, partially offset by aggregate non-cash adjustments of $209,177 and aggregate cash used by changes in operating assets and liabilities of $181,280 (primarily a result of a reduction in accounts payable and an increase in receivables).

For the years ended December 31, 2021 and 2020, net cash used in investing activities was $86,861 and $10,080, respectively, used for capital expenditures.

There were no financing activities for the year ended December 31, 2021. For the year ended December 31, 2020, net cash provided by financing activities was $555,946. Cash was provided by $2,161,969 of net proceeds from the issuance of convertible notes payable, $750,000 of net proceeds from the issuance of a notes payable and $890,000 of proceeds from the PPP loan, partially offset by repayments of notes payable of $3,239,678 and payments on equipment leases of $6,345.

Changes in Financial Condition

The Company's total assets were $3,620,397 at December 31, 2021, an increase of $278,453 over the prior year primarily due to increases in cash on hand, inventories and prepaid expenses, offset by a reduction in accounts receivable and equipment due to depreciation. Total liabilities were $5,505,672 at December 31, 2021, an increase of $408,366, primarily due to increased accrued expenses (dividends) and accounts payable.

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, 2020	Opening Balance	
	Common	50,408,933
	Preferred Series B	517,359
	Preferred Series C	10,000

Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued ($ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type
1/8/20	New	50,766	Common	$0.17	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/29/20	Conversion	954	Series C Preferred	$0.18	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
10/29/20	Conversion	35	Series C Preferred	$0.18	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
10/29/20	Conversion	11	Series C Preferred	$0.18	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
10/29/20	Conversion	530,000	Common	$0.18	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
10/29/20	Conversion	19,445	Common	$0.18	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
10/29/20	Conversion	6,112	Common	$0.18	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
7/7/21	New	33,333	Common	$0.18	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/7/21	New	33,333	Common	$0.18	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/7/21	New	33,333	Common	$0.18	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/7/21	New	33,333	Common	$0.18	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
10/11/21	New	33,333	Common	$0.18	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/11/21	New	33,333	Common	$0.18	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
10/11/21	New	33,333	Common	$0.18	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/11/21	New	33,333	Common	$0.18	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701

Number of Shares outstanding as of December 31, 2021	Ending Balance	
	Common	52,028,475
	Preferred Series B	517,359
	Preferred Series C	9,000

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

Please see Footnote 12 - Subsequent Events to the Company's consolidated financial statements below for information related to the Company's issuance of common stock related to stock-based compensation for directors.

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 ($) as of 12/31/2021	Principal Amount at Issuance ($)	Interest Accrued ($) as of 12/31/2021	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	$ 1,675,000	$ 1,675,000	$ -	4/30/2023	Convertible to shares of common stock at $0.12 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	$ 525,000	$ 525,000	$ -	4/30/2023	Convertible to shares of common stock at $0.14 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, 2021):

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 7 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 8 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 and 2021 to increase the number of shares available to 28,000,000 shares. See Note 7 to the Consolidated Financial Statements.

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts. See Note 8 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 17, 2022 /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 17, 2022 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II – CONSOLIDATED FINANCIAL STATEMENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HealthWarehouse.com, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for each of the two years in the period ended December 31, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Marcum LLP

Marcum LLP

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

New York, NY
March 17, 2022

MARCUMGROUP
MEMBER

Marcum LLP ▪ 730 Third Avenue ▪ 11th Floor ▪ New York, New York 10017 ▪ Phone 212.485.5500 ▪ Fax 212.485.5501 ▪ marcumllp.com

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 2,179,070	$ 1,815,638
Restricted cash	-	49,787
Accounts receivable	148,375	246,518
Inventories - net	281,252	232,748
Prepaid expenses and other current assets	176,891	114,450
Total current assets	2,785,588	2,459,141
Property and equipment, net	834,809	882,803
Total assets	$ 3,620,397	$ 3,341,944
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 671,463	$ 626,528
Accrued expenses and other current liabilities	2,686,170	2,328,364
Total current liabilities	3,357,633	2,954,892
Long term liabilities:		
Convertible notes payable, net of debt discount of $51,961 and $57,586 as of December 31, 2021 and 2020, respectively	2,148,039	2,142,414
Total long term liabilities	2,148,039	2,142,414
Total liabilities	5,505,672	5,097,306
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value $0.001 per share; 10,000 shares designated Series C: 9,000 issued and outstanding as of December 31, 2021 and December 31, 2020 (aggregate liqidation preference of $900,000)	900,000	900,000
Stockholders' deficiency:		
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of December 31, 2021 and December 31, 2020 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of December 31, 2021 and December 31, 2020 (aggregate liquidation preference of $6,942,441 and $6,600,207 as of December 31, 2021 and December 31, 2020, respectively)	517	517
Common stock – par value $0.001 per share; 125,000,000 shares authorized as of December 31, 2021 and December 31, 2020; 53,207,687 and 52,679,847 shares issued and 52,028,475 and 51,500,635 shares outstanding as of December 31, 2021 and December 31, 2020, respectively	53,207	52,679
Additional paid-in capital	35,677,572	34,893,278
Treasury stock, at cost, 1,179,212 shares as of December 31, 2021 and December 31, 2020	(3,419,715)	(3,419,715)
Accumulated deficit	(35,096,856)	(34,182,121)
Total stockholders' deficiency	(2,785,275)	(2,655,362)
Total liabilities and stockholders' deficiency	$ 3,620,397	$ 3,341,944

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, 2021	For the Year Ended December 31, 2020
Total net sales	$ 16,143,906	$ 17,178,985
Cost of sales	5,010,814	5,831,003
Gross profit	11,133,092	11,347,982
Selling, general and administrative expenses	11,492,710	11,397,106
Loss from operations	(359,618)	(49,124)
Other income (expense):		
Gain on debt forgiveness	-	890,000
Interest expense, net	(174,386)	(199,550)
Total other income (expense)	(174,386)	690,450
Income (loss) before income tax expense	(534,004)	641,326
Income tax expense	(38,498)	-
Net income (loss)	(572,502)	641,326
Preferred stock:		
Series B convertible preferred stock contractual dividends	(342,233)	(342,233)
Net income (loss) attributable to common stockholders	$ (914,735)	$ 299,093
Per share data:		
Net income (loss) – basic	$ (0.01)	0.01
Net income (loss) – diluted	(0.01)	0.01
Series B convertible preferred stock contractual dividends	(0.01)	(0.01)
Net income (loss) attributable to common stockholders - basic	$ (0.02)	$ 0.01
Net income (loss) attributable to common stockholders - diluted	$ (0.02)	$ 0.00
Weighted average number of common shares outstanding - basic	51,817,243	50,900,267
Weighted average number of common shares outstanding - diluted	51,817,243	70,309,974

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

	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, 2020	-	$ -	517,359	$ 517	51,588,145	$ 51,587	$ 34,242,985	1,179,212	$ (3,419,715)	$ (34,481,214)	$ (3,605,840)
Stock-based compensation	-	-	-	-	256,932	257	445,036	-	-	-	445,293
Common shares issued for previously accrued compensation	-	-	-	-	279,213	279	48,304	-	-	-	48,583
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(342,233)	(342,233)
Reclassification of Series C Preferred due to retraction of redemption notice	10,000	1,000,000	-	-	-	-	-	-	-	-	-
Conversion of Series C Preferred shares to Common shares	(1,000)	(100,000)			555,557	556	99,444	-	-	-	100,000
Warrants issued as debt discount in connection with convertible notes payable	-	-	-	-	-	-	57,509		-	-	57,509
Net income	-	-	-	-	-	-	-	-	-	641,326	641,326
Balances, December 31, 2020	9,000	$ 900,000	517,359	$ 517	52,679,847	$ 52,679	$ 34,893,278	1,179,212	$ (3,419,715)	$ (34,182,121)	$ (2,655,362)
Balances, January 1, 2021	9,000	$ 900,000	517,359	$ 517	52,679,847	$ 52,679	$ 34,893,278	1,179,212	$ (3,419,715)	$ (34,182,121)	$ (2,655,362)
Stock-based compensation	-	-	-	-	386,664	387	719,992	-	-	-	720,379
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)
Warrants issued as debt discount in connection with convertible notes payable	-	-	-	-	-	-	40,443	-	-	-	40,443
Net loss	-	-	-	-	-	-	-	-	-	(572,502)	(572,502)
Balances, December 31, 2021	9,000 0	$ 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)

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	
	2021	**2020**
Cash flows from operating activities		
Net income (loss)	$ (572,502)	$ 641,326
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	134,855	133,576
Stock-based compensation	744,379	509,293
Gain on debt forgiveness	-	(890,000)
Gain on extinguishment of accounts payable	(20,631)	-
Amortization of debt discount	46,068	37,954
Changes in operating assets and liabilities:		
Accounts receivable	98,143	(127,905)
Inventories	(48,504)	15,020
Prepaid expenses and other current assets	(62,441)	(48,568)
Accounts payable	65,566	(181,597)
Accrued expenses and other current liabilities	15,573	161,770
Net cash provided by operating activities	400,506	250,869
Cash flows from investing activities		
Capital expenditures	(86,861)	(10,080)
Net cash used in investing activities	(86,861)	(10,080)
Cash flows from financing activities		
Repayment of capital lease	-	(6,345)
Repayment of notes payable	-	(3,239,678)
Proceeds from note payable	-	750,000
Proceeds from note payable - refundable	-	890,000
Proceeds from convertible notes payable	-	2,161,969
Net cash provided by financing activities	-	555,946
Net increase in cash	313,645	796,735
Cash, cash equivalents and restricted cash - beginning of period	1,865,425	1,068,690
Cash, cash equivalents and restricted cash - end of period	$ 2,179,070	$ 1,865,425
Cash paid for:		
Interest	$ 132,000	$ 152,490
Non-cash investing and financing activities:		
Warrants issued in connection with convertible notes payable	$ 40,443	$ 57,509
Accrual of contractual dividends on Series B convertible preferred stock	$ 342,233	$ 342,233
Common stock issued to satisfy accrued directors' fees	$ 96,000	$ 102,583
Options issued to satisfy accrued directors' fees	$ 160,000	$ 90,000
Conversion of note payable to convertible note payable	$ -	$ 500,000
Conversion of shares of Series C Preferred to common share	$ -	$ 100,000

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

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

1. Organization and Basis of Presentation

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

2. Liquidity and Capital Resources

The Company’s working capital deficiency was $572,045 and the stockholder deficiency was $2,785,275 as of December 31, 2021. For the year ended December 31, 2021, the Company had a net loss of $572,502, but generated net cash provided by operating activities of $400,506. As of December 31, 2021, the Company had cash and cash equivalents totaling $2,179,170.

During 2020, the Company reduced its current obligations by completing a Convertible Note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred stock and receiving forgiveness of its PPP loan. In 2021, the Company extended the original maturity date of the Convertible Notes to April 30, 2023, which reduced its current obligations as of December 31, 2021. The primary component of the Company’s remaining current obligations is the accrued dividends totaling $2,053,398 to the holders of the Series B Preferred shares. 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. 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 filing of these audited 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.

Principles of Consolidation

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

Use of Estimates

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

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, 2021 and 2020, the Company had money market accounts held at banks and other financial institutions which are classified as cash equivalents.

Restricted Cash

Restricted cash represented cash held by the Company's credit card processor as a reserve to cover potential future refunds. During the year ended December 31, 2021, the credit card processor refunded the balance of the funds held, net of fees. Cash and cash equivalents and Restricted Cash, as presented on the consolidated statements of cash flows, consists of $2,179,070 and $0, as of December 31, 2021, respectively, and $1,815,638 and $49,787 as of December 31, 2020, respectively.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

The Company's management has established an allowance for doubtful accounts sufficient to cover probable and reasonably estimable losses. The nature of the 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 fulfilment 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 collection experience, current economic trends, estimates of forecasted write-offs, aging of the accounts receivable, and other factors. The Company has determined that an allowance for doubtful accounts was not necessary as of December 31, 2021 and 2020.

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. The inventory is valued at the lower of cost or net realizable value with cost determined using the first-in, first-out method.

Property and Equipment, net

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

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair value. For the years ended December 31, 2021 and 2020, the Company did not record any impairment of long lived assets.

Fair Value of Financial Instruments

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

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

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

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

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

Income Taxes

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

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

Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the Company's financial statements as of December 31, 2021 and 2020. 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, 2021 and 2020.

Debt Discounts

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

Revenue Recognition

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

Revenue is generated through the sale of over-the-counter medication and prescription medication. The Company also generates revenue by providing fulfillment of prescription medication 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 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.

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.

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. See also Sales Tax paragraph.

Disaggregation of Revenue

Revenue is primarily generated through the sale of over-the-counter medication and prescription medication (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 ("Partner Services"). The following table summarizes revenue for the years ended December 31, 2021 and 2020.

	For the years ended December 31,	
	2021	**2020**
B2C Sales	$13,633,842	$15,515,381
Partner Services Sales	2,504,106	1,657,523
Other Sales	5,958	6,081
Total Sales	$16,143,906	$17,178,985

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company has received customer deposits from the customer but has not yet provided the fulfillment or other services to partners. The Company had contract liabilities of $75,765 and $0 as of December 31, 2021 and 2020, respectively, which represented refundable customer deposits and was recorded as a reduction of accounts receivable. Other than accounts receivable, there were no contract assets as of December 31, 2021.

Shipping and Handling Costs

The Company policy is to provide free standard shipping and handling for most orders. Shipping and handling costs incurred are recognized in selling, general and administrative expenses. Such amounts aggregated $1,660,777 and $1,795,668 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 were $375,999 and $460,107, respectively.

Advertising and Marketing Expenses

The Company expenses all advertising and marketing costs as incurred which was $1,725,020 and $1,872,831 for the years ended December 31, 2021 and 2020, respectively.

Sales Taxes

The Company accounts for sales taxes imposed on its goods and services on a net basis in the consolidated statements of operations. Beginning in 2018 and continuing into 2021, various states have enacted or are considering enacting legislation to require the collection of sales tax on ecommerce transactions shipped to their state. Such requirements vary by state and are subject to specified de minimis levels and various exclusions, including prescription medication. Compliance with current legislation enacted is not expected to have a material impact on the Company's future operations or results.

Net Earnings (Loss) Per Share of Common Stock

Basic net earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share 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	
	2021	**2020**
Net income (loss) attributable to common shareholders	$ (941,735)	$ 299,093
Weighted-average common shares, basic	51,817,243	50,900,267
Weighted-average common shares, diluted*	51,817,243	70,309,974
Net income (loss) per common share, basic	$ (0.02)	$ 0.01
Net income (loss) per common share, diluted	$ (0.02)	$ 0.00

* The diluted earnings per common share in 2020 included the weighted-average effect of 3,324,247 stock options, 500,000 stock warrants, convertible notes, as if converted to 17,708,338 shares and Series C Convertible Redeemable Preferred Stock, as if converted to 5,000,000 shares, that are potentially dilutive to earnings per share for the year ended December 31, 2020, since the exercise price of such securities was less than the weighted average market price of $0.21 during 2020.

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,	
	2021	**2020**
Options	10,313,044	2,408,108
Warrants	1,162,367	473,367
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Convertible Redeemable Preferred Stock *	7,352,942	-
Convertible Notes Payable	17,708,338	-
Total potentially dilutive shares	44,193,605	10,538,389

* The amount of Series C Convertible Redeemable Preferred Stock as if converted shares of 7,352,942 was calculated based on a conversion price of 80% of the 30 day weighted average closing price of $0.153 as of December 31, 2021.

Stock-Based Compensation

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

Preferred Stock

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

Convertible Instruments

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

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

Common Stock Warrants and Other Derivative Financial Instruments

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

The Company evaluated its free-standing warrants to purchase common stock to assess their proper classification in the consolidated balance sheet as of December 31, 2021 and 2020 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

COVID-19 Pandemic: In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our operations or the global economy as a whole. Possible effects may include, but are not limited to, mandates from federal, state and local governments that would directly prohibit our ability to conduct business, absenteeism in the Company's labor workforce and limitations on availability of products and supplies. The effects could have a material impact on our operations, and we will continue to monitor the COVID-19 situation closely.

To date, the pandemic has had a limited impact on our business operations due to our classification as an essential business in Kentucky. The Company has implemented policies and procedures based on recommended guidelines provided by the CDC in order to limit the possibility of the infection of employees, including transitioning over 50% of our staff of approximately 110 employees to telecommuting from their homes. The Company continues to experience shortages in the supply of medications, particularly over-the-counter, albeit to a lesser extent than was experienced during the beginning of the pandemic in 2020.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This update and related amendments are effective for nonpublic entities for annual periods beginning after December 15, 2021. The Company is currently assessing the impact this guidance will have on its consolidated financial statement.

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

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". ASU 2019-12 removes specific exceptions to the general principles in Topic 740 in U.S. GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period:

-Exception to the incremental approach for intraperiod tax allocation;
-Exceptions to accounting for basis differences when there are ownership changes in foreign investments; and
-Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

ASU 2019-12 also improves financial statement preparers' application of income tax-related guidance and simplifies U.S. GAAP for:

-Franchise taxes that are partially based on income;
-Transactions with a government that result in a step up in the tax basis of goodwill;
-Separate financial statements of legal entities that are not subject to tax; and
-Enacted changes in tax laws in interim periods.

This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. If early adoption is elected, the entity should adopt all amendments in the same period. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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 is currently assessing the impact this guidance will have on its consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements" ("ASU 2020-10"). This ASU contains amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). Many of the amendments arose because the FASB provided an option to give certain information either on the face of the financial statements or in the notes to financial statements and that option only was included in the Other Presentation Matters Section (Section 45) of the Codification. The option to disclose information in the notes to financial statements should have been codified in the Disclosure Section as well as the Other Presentation Matters Section (or other Section of the Codification in which the option to disclose in the notes to financial statements appears). This standard is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, "Earnings per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options". This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses:

-How an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange;
- How an entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; and
- How an entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange.

This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2021	December 31, 2020	Useful Life (Years)
Computer Software	$ 297,474	$ 240,379	5 years
Equipment	1,287,223	1,257,456	10 years
Office Furniture and Equipment	103,602	103,602	7 years
Computer Hardware	50,997	50,998	5 years
Leasehold Improvements	322,973	322,973	(a)
Total	2,062,269	1,975,408	
Less: Accumulated Depreciation	(1,227,460)	(1,092,605)	
Property and Equipment, Net	$ 834,809	$ 882,803	

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

Depreciation expense for the above assets for the years ended December 31, 2021 and 2020 was $134,855 and $133,576, respectively.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2021	December 31, 2020
Salaries and Benefits	$ 197,935	$ 172,363
Dividend Payable	2,053,398	1,711,165
Accounting	97,138	59,738
Accrued Corporate Taxes	34,002	5,903
Accrued Interest	28,435	28,435
Accrued Rent	16,969	16,334
Sales Tax Payable	51,658	117,863
Advertising	35,700	50,700
Accrued Engineering Fees	47,000	47,000
Accrued Director Fees	64,000	64,000
Deferred Revenue	803	2,387
Other	59,132	52,476
	$ 2,686,170	$ 2,328,364

6. Notes Payable

Notes payable consisted of the following:

	December 31, 2021	December 31, 2020
Convertible Promissory Note	2,200,000	2,200,000
Less debt discount	(51,961)	(57,586)
Total debt	2,148,039	2,142,414
Less current portion	-	-
Long-term debt, less current portion	$ 2,148,039	$ 2,142,414

Kapok Promissory Note

The Company was a party to a promissory note (the "Kapok Promissory Note" or “Senior Note”) and a security agreement (the "Kapok Security Agreement") with Kapok Ventures Limited, which commenced in 2017. Under the terms of the Kapok Promissory Note, the Company could borrow up to an aggregate of $1,000,000 (as amended) from Kapok. The Kapok Promissory Note bore interest on the unpaid principal balance until the full amount of principal had been paid at a variable rate equal to the prime rate plus four and one-quarter percent (4.25%) per annum (7.5% at June 30, 2020). The Company repaid $1,000,000 of the outstanding balance on January 31, 2020 and the amount of the Promissory Note was reduced from $2,000,000 to $1,000,000 on that date. Under the terms of the Kapok Promissory Note, the Company agreed to make monthly payments of accrued interest on the first day of every month, through the June 30, 2020 maturity date. The outstanding principal balance on the Kapok Promissory Note and accrued interest were repaid in full on June 20, 2020.

Millennium Promissory Note

The Company was a party to a promissory note (the "Millennium Promissory Note") and a security agreement (the "Millennium Security Agreement") (collectively, the Millennium Promissory Note and the Millennium Security Agreement, the "Millennium Loan Agreements") with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA, which commenced in 2019. Under the terms of the Millennium Promissory Note, the Company borrowed an aggregate of $500,000 from Millennium (the "Millennium Loan"). The Millennium Promissory Note bore interest on the unpaid principal balance until the full amount of principal had been paid at a fixed rate equal to 10% per annum. Under the terms of the Millennium Promissory Note, the Company agreed to make monthly payments of accrued interest on the first day of every month. The principal amount of the Millenium Promissory Note was converted into a new loan in connection with the issuance of convertible notes detailed below on February 12, 2020 and all accrued interest was repaid on February 28, 2020. The Timothy E. Reilly IRA is owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company’s outstanding shares of common stock. As such, the Millennium transaction is a related party transaction.

Melrose Unsecured Note

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

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 is payable on April 30, 2022, which was extended to April 30, 2023 as noted below. As of December 31, 2021, the outstanding principal balance on the Convertible Promissory Notes was $2,148,039, net of the debt discount of $51,961, 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 is being 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, 2022 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 is being 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 $20,230 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 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 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.

PPP Promissory Note

The Company entered into a business loan agreement (the “First Financial Loan Agreement”) and a promissory note (the “First Financial Note”) (together, the “First Financial Loan Documents”) on May 1, 2020 with First Financial Bank as the lender (the “Lender”), pursuant to which the Lender agreed to make a loan to the Company under the Paycheck Protection Program (the "First Financial Loan") offered by the U.S. Small Business Administration (the “SBA”) in a principal amount of $890,000 pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The interest rate on the First Financial Note was a fixed rate of 1% per annum. In the event that the proceeds were used to pay for qualified expenses including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt, the First Financial Loan would be forgiven. To the extent that the amounts owed under the First Financial Loan, or a portion of them, were not forgiven, the Company would be required to make principal and interest payments in monthly installments of $50,086 beginning on December 1, 2020. The First Financial Note had a maturity date of May 1, 2022.

For the year ended December 31, 2020, the Company had utilized $890,000 of the proceeds to cover the qualified expenses referenced above. The Company prepared and submitted the PPP Loan Forgiveness Application and the supporting documents in November 2020. On December 11, 2020, the Company received notice from the Lender that the SBA had reviewed the application and had granted forgiveness of the full amount of the loan. As a result of the forgiveness, the Company recognized the $890,000 as a gain on forgiveness of debt during the quarter ended December 31, 2020.

7. Stockholders’ Deficiency

The Company is authorized to issue up to 125,000,000 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. The authorized shares of common shares was increased from 100,000,000 to 125,000,000 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 on October 9, 2020.

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, 2021 and 2020, the Company issued an aggregate of 527,840 and 536,145 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 and $102,584 for the years ended December 31, 2021 and 2020, respectively, of which $24,000 and $48,584 had been accrued and included in accrued expenses and other current liabilities at December 31, 2020 and 2019, respectively. The shares were valued at the 30-day weighted average closing share price on the grant date which ranged between $0.17 and $0.20 per share in 2021 and between $0.17 and $0.26 in 2020.

During the year ended December 31, 2020, the Company issued an aggregate of 555,557 shares of common stock to the holders of the Series C Preferred Stock related to the holders' election to convert 1,000 of their Series C Preferred shares which had a principal amount of $100,000. The conversion was affected at $0.18 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 and $78,000 for the years ended December 31, 2021 and 2020, respectively. Stock-based compensation of $24,000 and 48,584 is included in accrued expenses as other liabilities as of December 31, 2021 and 2020, respectively.

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, 2021 and 2020, 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 due to the anti-dilution provision. The anti-dilution provision represents a beneficial conversion feature. As of December 31, 2021, an incremental 5,070,118 shares of common stock are issuable at conversion of the Series B Convertible Preferred Stock as compared to the original terms. Using the commitment date common stock price in effect, the commitment date value of the incremental shares is $12,796,979.

However, recognition of beneficial conversion features is limited to the aggregate gross proceeds allocated to the preferred stock of $3,199,689 (422,315 shares of Series B Convertible Preferred Stock times $9.45 per share less the proceeds allocated to the warrants of $791,188) less the $1,666,967 beneficial conversion feature already recognized on the original

365,265 shares of Series B Preferred Stock (prior to the issuance of additional shares as payment-in-kind in lieu of cash dividends). Due to these limitations, no beneficial conversion feature value was recorded for the years ended December 31, 2021 and 2020. The investor rights agreement of the Company's Series B preferred shares limits the total debt of the Company to $1 million. The agreement also limits the ability to raise preferred equity at current market conversion rates. See Note 6 for the waiver of the limitation of debt to April 30, 2023.

The Convertible Note transactions disclosed above triggered the anti-dilution provisions of the Series B Preferred Stock, whereby the conversion price is to be reduced pursuant to a pre-defined formula. As a result, the conversion price decreased from $0.79 to $0.67 per share of the Company's common stock effective April 14, 2020.

As of December 31, 2021 and 2020, the Company had accrued contractual dividends of $2,053,398 and $1,711,165, respectively, related to the Series B Preferred Stock.

Series C Preferred Stock

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

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

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 to the Company until October 29, 2022 and (ii) to convert up to $100,000 of the Series C Preferred Stock valued at its original issue price of $9.45 per share into shares of the Company's common stock at a conversion price of $0.18 per share. The 30-day weighted average closing common share price as of the date of the Agreement was $0.20 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 in 2022. The conversion price will be $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. 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. Following the Agreement, the shares were reclassified from a current liability to temporary equity as of December 31, 2020 and 2021 in the Company's consolidated balance sheet.

The Series C Conversion and Standstill Agreement triggered the anti-dilution provisions of the Series B Preferred Stock, whereby the conversion price is to be reduced pursuant to a pre-defined formula. As a result, the conversion price decreased from $0.67 to $0.64 per share of the Company's common stock effective October 29, 2020.

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. The Company has subsequently issued 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.

In accounting for the modification of the Series C Preferred as a result of the Conversion and Standstill Agreement, it was determined that the difference was immaterial.

Incentive Compensation / Stock Option Plans

The Company had sponsored an Incentive Compensation Plan (the “2009 Plan”) which was approved by the Board of Directors and the Company’s stockholders, and initially allowed the total number of shares of common stock issuable pursuant to the 2009 Plan to be 2,881,425 shares. The 2009 Plan terminated effective May 15, 2019 per the terms of the Plan documents.

The 2009 Plan imposed individual limitations on the amount of certain awards. Under these limitations during any fiscal year of the Company, the number of options, stock appreciation rights, shares of restricted stock, shares of deferred stock, performance shares and other stock based-awards granted to any one participant under the 2009 Plan may not exceed 250,000 shares, subject to adjustment in certain circumstances. The maximum amount that may be paid out as performance units in any 12-month performance period is an aggregate value of $2,000,000, and the maximum amount that may be paid out as performance units in any performance period greater than 12 months is an aggregate value of $4,000,000. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the board of directors or committee of the Company’s board of directors designated to administer the 2009 Plan (the “Committee”), except that no option or stock appreciation right may have a term exceeding ten years. The exercise price per share subject to an option and the grant price of a stock appreciation rights are determined by the Committee, but in the case of an incentive stock option (ISO) must not be less than the fair market value of a share of common stock on the date of grant.

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

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

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

Following the approval of the Board of Directors and stockholders of record as of August 18, 2020, 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 18,000,000.

Following the approval of the Board of Directors and stockholders of record as of September 1, 2021, 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.

Stock Options

Grants

The weighted average fair value of the stock options granted during the year ended December 31, 2021 was $0.16.

During the year ended December 31, 2021, the Company granted options to key employees and executives of the Company to purchase an aggregate of 3,875,000 shares of common stock under a previously approved plan at exercise prices ranging between $0.16 and $0.17 per share for an aggregate grant date value of $625,347. 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, 2021 was $182,231.

During the year ended December 31, 2021, the Company granted options to directors of the Company to purchase an aggregate of 913,356 shares of common stock under a previously approved plan at exercise price ranging from $0.17 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, 2021 was $160,000, of which $40,000 was included in accrued expenses and other liabilities as of December 31, 2020.

During the year ended December 31, 2020, the Company granted options to key employees and executives of the Company to purchase an aggregate of 2,650,000 shares of common stock under a previously approved plan at exercise price of $0.12 per share for an aggregate grant date value of $309,870. 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, 2021 and 2020 was $99,717 and $94,683, respectively.

During the year ended December 31, 2020, the Company granted options to directors of the Company to purchase an aggregate of 443,460 shares of common stock under a previously approved plan at exercise price ranging from $0.17 to $0.26 per share for an aggregate grant date value of $90,000. 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, 2020 was $90,000.

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the years ended December 31, 2021 and 2020, the Company used the following weighted average assumptions:

	Year Ended December 31	
	2021	**2020**
Risk-free interest rate	0.32% to 1.14%	0.33% to 1.37%
Expected dividend yield	0.0%	0.0%
Expected volatility	176.0% to 178.0%	179.0% to 181.0%
Weighted average expected life (contractual term) in years	5.5 to 6.0	5.5 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 $0.16 and $0.20 per share in 2021 and between $0.12 and $0.26 in 2020.

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 $648,380 and $431,293 for the years ended December 31, 2021 and 2020, respectively. Stock-based compensation of $40,000 is included in accrued expenses and other liabilities as of December 31, 2021.

As of December 31, 2021, stock-based compensation expense related to stock options of $564,511 remains unamortized which is being amortized over the weighted average remaining period of 1.8 years.

Summary

A summary of the stock option activity during the years ended December 31, 2021 and 2020 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2020	2,694,395	$ 0.41		
Granted	3,093,460	0.11		
Exercised	-	-		
Forfeited	(55,500)	0.36		
Outstanding, January 1, 2021	5,732,355	$ 0.26		
Granted	4,788,356	0.16		
Exercised	-	-		
Forfeited	(207,667)	0.43		
Outstanding, December 31, 2021	10,313,044	$ 0.21	7.9	$ 125,649
Exercisable, December 31, 2021	4,446,376	$ 0.28	7.0	$ 58,604

The following table presents information related to stock options outstanding and exercisable at December 31, 2021:

	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	$ 0.15	7,920,936	$ 0.14	7.7	2,470,935
$0.22 - $0.35	$ 0.32	2,287,108	$ 0.32	6.4	1,870,441
$0.53 - $1.60	$ 0.87	66,000	$ 0.87	1.7	66,000
$4.10 - $6.99	$ 6.52	39,000	$ 6.52	0.4	39,000
$0.09 - $6.99	$ 0.21	10,313,044	$ 0.28	7.0	4,446,376

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	
	2021	2020
Risk-free interest rate	1.26%	1.41%
Expected dividend yield	0.00%	0.00%
Expected volatility	175.0%	181.0%
Weighted average expected life (contractual term) in years	5.0	5.0

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 ranged between $0.16 per share in 2021 and $0.11 in 2020.

Grants

During the year ended December 31, 2021, the Company issued warrants to purchase an aggregate of 132,000 shares of common stock to the holders of the Convertible Notes as part of the agreement to extend the maturity date of the notes. The warrants were issued at exercise prices ranging between $0.12 and $0.14 which matched 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 $20,230 which was recognized as a debt discount on the grant date. See Footnote 5 – Notes Payable.

During the year ended December 31, 2021, the Company issued warrants to purchase an aggregate of 132,000 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 $0.12. 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. See Footnote 5 – Notes Payable.

A summary of the stock warrant activity during the years ended December 31, 2021 and 2020 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2020	473,367	$ 0.66		
Granted	500,000	0.11		
Exercised	-	-		
Forfeited	-	-		
Outstanding, January 1, 2021	973,367	$ 0.38		
Granted	264,000	0.12		
Exercised	-	-		
Forfeited	(75,000)	0.25		
Outstanding, December 31, 2021	1,162,367	$ 0.33	2.8	$ 27,290
Exercisable, December 31, 2021	1,162,367	$ 0.33	2.8	$ 27,290

The following table presents information related to stock warrants at December 31, 2021:

	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 - $0.25	$ 0.12	799,000	$ 0.12	3.6	799,000
$0.30 - $0.50	$ 0.41	333,367	$ 0.41	0.9	333,367
$4.95	$ 4.95	30,000	$ 4.95	0.8	30,000
$0.11 - $4.95	$ 0.33	1,162,367	$ 0.33	2.8	1,162,367

8. Commitments and Contingent Liabilities

Capital Lease

On January 11, 2018, the Company entered a three-year lease agreement related to a forklift. The terms of the lease agreement require monthly payments of $542 with the option to purchase the forklift on the lease termination date for $1 The transaction was recognized as a fixed asset acquisition and capital lease obligation of $18,030. The final lease payment was made in December 2020 and the Company satisfied all obligations under the lease.

Operating Leases

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

The Company accounts for rent expense using the straight-line method of accounting, deferring the difference between actual rent due and the straight-line amount. Deferred rent payable of $16,969 and $16,334 as of December 31, 2021 and December 31, 2020, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

The aggregate future minimum lease payments for operating leases, excluding renewal periods, and capital leases as of December 31, 2021 were as follows:

	Operating Leases
2022	105,871
2023	109,047
2024	112,318
Total	$ 327,236

During the years ended December 31, 2021 and 2020, the Company recorded aggregate rent expense of $148,588 and $152,758, respectively.

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 Agreement 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, 2021, the Compensation Committee approved an increase in the base salaries for Mr. Peters and Mr. Seliga to $138,000 and $134,000 per year, respectively. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

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 21, 2021, Mr. Peters and Mr. Seliga were each granted options to purchase 1,200,000 shares of common stock under the 2014 Plan at an exercise price of $0.17 per share for an aggregate grant date value of $396,178. The options vest over a three-year period and have a term of ten years. On February 1, 2020, Mr. Peters and Mr. Seliga were each granted options to purchase 1,000,000 shares of common stock under the 2014 Plan at an exercise price of $0.12 per share for an aggregate grant date value of $233,864. The options vest over a three-year period and have a term of ten years.

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.

9. Concentrations

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

During the years ended December 31, 2021 and 2020, one customer represented 5% and 6% of total sales, respectively.

Three customers represented 42%, 21%, and 18% of the accounts receivable balance as of December 31, 2021. Four customers represented 41%, 19%, 13% and 12% of the accounts receivable balance as of December 31, 2020. The customers noted above are related to Partner Services sales.

During the year ended December 31, 2021, three suppliers represented 34%, 34% and 12% of total inventory purchases. During the year ended December 31, 2020, three suppliers represented 41%, 21% and 20% of total inventory purchases.

Two vendors represented 40% and 13% of the accounts payable balance as of December 31, 2021. One vendor represented 29% of the accounts payable balance at December 31, 2020.

10. Related Party Transactions

On January 31, 2020, the Company executed an unsecured promissory note with Melrose Capital Advisors, LLC (the "Melrose Unsecured Note") whereby the Company borrowed $750,000. The Melrose Unsecured Note bore interest on the unpaid principal balance at a fixed rate equal to 10% per annum. The principal amount and all unpaid accrued interest on the Melrose Unsecured Note were due on February 10, 2020. The proceeds of the Melrose Unsecured Note were used to repay a portion of the Kapok Promissory Note. The Melrose Unsecured Note was repaid in February 2020 in connection with the issuance of convertible notes detailed below. Melrose Capital Advisors, LLC is controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Melrose transaction is a related party transaction. See Note 6 – Notes Payable.

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. 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 LC and a beneficial owner of more than 5%. As such, MVI Partners LLC may be deemed to be a related party to the Company.

11. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2021 and 2020 was as follows:

	For The Years Ended December 31, 2021	For The Years Ended December 31, 2020
Federal:		
Current	$ -	$ -
Deferred	(85,964)	196,954
State and local:		
Current	38,498	-
Deferred	44,724	51,648
	(2,742)	248,602
Change in valuation allowance	41,240	(248,602)
Income tax provision (benefit)	$ 38,498	$ -

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss carryforwards	$ 3,964,611	$ 3,961,750
Stock-based compensation	300,786	275,699
Inventory reserves	1,470	7,169
Deferred revenue	182	544
Deferred rent	3,838	3,723
Accruals	21,030	-
Amortization of Debt Discount	21,780	11,444
Total deferred tax assets	4,313,697	4,260,329
Valuation allowance	(4,240,232)	(4,176,275)
Deferred tax assets, net of valuation allowance	73,465	84,054
Deferred tax liabilities		
Property and equipment	(73,465)	(84,054)
Deferred tax liabilities	(73,465)	(84,054)
Net deferred tax assets	$ -	$ -
Change in valuation allowance	$ 63,957	$ (248,602)

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, 2021 and 2020.

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 2018 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, 2021. When these returns are filed for the year ended December 31, 2021, the Company will have $17,232,770 and $16,969,621 of federal net operating loss (NOL's) carryforwards that may be available to offset future taxable income as of December 31, 2021 and 2020, respectively. The federal net operating loss carryforwards generated prior to 2018, if not utilized, will expire from 2027 to 2039. The federal net operating loss carryforwards generated in 2018 will carryforward indefinitely. As of December 31, 2021 and 2020, the Company had approximately $9,334,565 and $9,953,258 of state net operating loss carryforwards available to offset future taxable income. The state NOLs, if not utilized, will expire beginning in 2031.

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

For the years ended December 31, 2021 and 2020, 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,	
	2021	**2020**
US federal statutory rate	21.0%	21.0%
State tax rate, net of federal benefit	1.6%	1.8%
Permanent differences		
- Stock based compensation	(21.7%)	41.8%
- Payroll Protection Program debt extinguishment	0.0%	(31.6%)
- Other Permanent adjustments	0.0%	0.4%
Other true ups	(2.5%)	(0.6%)
Utilization of PY NOLs	(4.5%)	0.0%
Adjustment to PY NOLs	6.7%	0.0%
Change in State Tax Rate	0.0%	6.0%
Change in valuation allowance	(6.8%)	(38.8%)
Income tax provision (benefit)	(6.2%)	0.0%

12. 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 17, 2022, the Company issued an aggregate of 150,000 shares of common stock and options to purchase 260,000 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 2021. The shares had an aggregate grant date value of $24,000 and were valued at $0.16 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 $0.16 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, 2021.

Issuance of Options to Employees and Executives

On January 28,2022, the Company granted stock options to purchase an aggregate of 4,700,000 shares of common stock under the 2014 Plan to key employees and executives of the Company as recognition of their contributions to the Company. The options had an exercise price of $0.16 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 $728,354.