HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

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

SIC Code: 5912 - Drugstores and Proprietary Stores

Annual Report

For the year ended December 31, 2020

As of December 31, 2020, the number of shares outstanding of our Common Stock was 51,500,635.

As of September 30, 2020, the number of shares outstanding of our Common Stock was 50,863,259.

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

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

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

HEALTHWAREHOUSE.COM, INC.

Annual Report

Table of Contents

PART I – ENTITY AND SECURITY INFORMATION

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

HealthWarehouse.com, Inc. (the "Company", "Issuer" or "HEWA"). The Company is an active corporation and in good standing in Delaware.

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

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

2) Security Information

Security information as of December 31, 2020:

Title and Class of Security	Par Value	Trading Symbol	CUSIP	Total Shares Authorized	Total Shares Outstanding	Public Float	Shareholders of Record
Common Stock	$0.001	HEWA	42227G202	125,000,000	51,500,635	12,602,205	252
Preferred Stock – Series B	$0.001	Not Applicable	Not Applicable	790,000	517,359	-0-	2
Preferred Stock – Series C	$0.001	Not Applicable	Not Applicable	10,000	9,000	-0-	3

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

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:

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

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: 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.

3) Issuance History

A. 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: ☐

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
Number of Shares outstanding as of January 1, 2019		**Opening Balance**							
		Common		49,018,548					
		Preferred Series B		517,359					
		Preferred Series C		10,000					
1/8/19	New	213,708	Common	$0.25	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
2/11/19	New	486,381	Common	$0.26	No	Executives (Peters, Seliga)	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	155,424	Common	$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	174,344	Common	$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
7/31/19	New	33,060	Common	$0.30	No	Pickwick Capital Partners LLC (Doug Greenwood, President, has voting / investment control)	Stock Based Compensation	Restricted	Rule 701
10/15/19	New	227,468	Common	$0.23	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
12/5/19	New	100,000	Common	$0.09 - $0.11	Yes	Rob Godwin	Exercise of stock option	Restricted	Non Public
1/8/20	New	279,213	Common	$0.17	No	Directors (Scott, Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	105,882	Common	$0.17	No	Directors (Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	69,231	Common	$0.26	No	Directors (Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	81,819	Common	$0.22	No	Directors (Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701
10/29/20	Cancellation by Conversion	1,000	Series C Preferred	$0.18	No	New Atlantic Venture Fund III, L.P.,; New Atlantic Entrepreneur Fund III, L.P.; NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO of NAV entities)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
10/29/20	Issuance by Conversion	555,557	Common	$0.18	No	New Atlantic Venture Fund III, L.P.,; New Atlantic Entrepreneur Fund III, L.P.; NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO of NAV entities)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
Number of Shares outstanding as of December 31, 2020		**Ending Balance**							
		Common		51,500,635					
		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.

B. 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 ($) as of 12/31/2020	Principal Amount at Issuance ($)	Interest Accrued ($) as of 12/31/2020	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	$ 1,675,000	$ 1,675,000	$ 25,125	4/30/2022	Convertible to shares of common stock at $0.12 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	$ 525,000	$ 525,000	$ 7,875	4/30/2022	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.

4) Financial Statements

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

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

See PART II –CONSOLIDATED FINANCIAL STATEMENTS below.

5) Issuer's Business, Products and Services

A) Description of the Issuer's business operations:

HealthWarehouse.com, Inc. is an online pharmacy, licensed and/or authorized to sell and deliver prescriptions in 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 74 National Association of Boards of Pharmacy ("NABP") accredited digital pharmacies. In addition, the Company also provides fulfillment services of prescription medication to customers of other healthcare providers including telemedicine and online services companies.

B) The wholly-owned subsidiaries of HealthWarehouse.com, Inc. are Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV. Hocks.com, Inc., ION Holding NV and ION Belgium NV are inactive subsidiaries.

C) Principal products and services: The Company sells directly to individual consumers who purchase prescription medications and OTC products over the Internet. The Company offers over 6,200 prescription medications and over 6,000 OTC products. The Company also provides fulfillment services of prescription medication to customers of other healthcare providers.

6) 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.

7) Officers, Directors and Control Persons

Names of Officers and Directors

The following table sets forth certain information with respect to the directors and executive officers of the Company as of December 31, 2020. Please see detailed director biographies contained in the Company's 2020 Annual Meeting and Proxy Statement dated August 28, 2020, filed with the OTC Markets on August 31, 2020.

Name	Title
Joseph B. Peters	President and Chief Executive Officer, Director
Daniel J. Seliga	Chief Financial Officer
Tim Reilly	Director, Chairman
Jack Britts	Director
Joseph Heimbrock	Director
Sara Mannix	Director

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, 2020. 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
Dellave Holdings, LLC, Melrose Capital Advisors LLC, Millenium Trust Company LLC Custodian FBO Timothy E. Reilly and Tim Reilly	Director and >5%	1085 Gulf of Mexico Drive, Longboat Key, FL 34228	4,390,853	Common	8.6%	21.7%
MVI Partners and Joe Heimbrock, Director	Director and >5%	3299 Hughes Court, Taylor Mill, KY 41015	494,913 1,729,937	Series B Common	96.0% 3.4%	* 16.5%
Cormag Holdings, LTD and Mark D. Scott, Director	>5%	104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6	5,699,929	Common	11.2%	11.2%
Dr. Bruce Bedrick	>5%	5375 Monterey Circle #32, Delray Beach, FL 33484	3,990,000	Common	7.8%	7.8%
Lalit Dhadphale	>5%	182 Uccello Drive, Las Vegas, NV 89138	3,022,479	Common	5.9%	5.9%
Jack Britts	Director	7 Glen Falls Road Asheville, NC 28804	473,487	Common	0.9%	1.2%
Joseph B. Peters	President and Chief Executive Officer and Director	9085 Braxton Drive, Union, KY 41091	283,463	Common	0.6%	2.0%
Daniel J. Seliga	Chief Financial Officer	3524 Paxton Avenue, Cincinnati, OH 45208	1,041,354	Common	2.0%	2.8%

* Each Preferred B share is convertible into 14.8 common shares as of December 31, 2020.

8) **Legal/Disciplinary History**

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

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

   None

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

   None

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

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

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

   None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject of:

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

9) Third Party Providers

Legal Counsel

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

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

and

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

Accounting/Auditing Firm
Firm: Marcum LLP
Address 1: 750 Third Avenue, 11th Floor
Address 2: New York, NY 10017
Phone: (212) 485-5500

10) Issuer Certification

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Peters, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 29, 2021 /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 quarterly disclosure statement of HealthWarehouse.com, Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 29, 2021 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II – CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HealthWarehouse.com, Inc. (the "Company") as of December 31, 2020 and 2019, 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, 2020 and 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020 and 2019, 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 provides a reasonable basis for our opinion.

Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2009.
New York, NY
March 29, 2021

1

Marcum LLP ▪ 750 Third Avenue ▪ 11th Floor ▪ New York, New York 10017 ▪ Phone 212.485.5500 ▪ Fax 212.485.5501 ▪ marcumllp.com

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

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,815,638	$ 2,355
Restricted cash	49,787	1,066,335
Accounts receivable	246,518	118,613
Inventories	232,748	247,768
Prepaid expenses and other current assets	114,450	65,882
Total current assets	2,459,141	1,500,953
Property and equipment, net	882,803	1,006,299
Total assets	$ 3,341,944	$ 2,507,252
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 626,528	$ 808,125
Accrued expenses and other current liabilities	2,328,364	1,808,944
Current portion of equipment lease payable	-	5,736
Notes payable	-	2,489,678
Redeemable preferred stock - Series C; par value $0.001 per share; 10,000 designated Series C: 10,000 issued and outstanding as of December 31, 2019 (aggregate liquidation preference of $1,000,000)	-	1,000,000
Total current liabilities	2,954,892	6,112,483
Long term liabilities:		
Capital lease payable - non-current	-	609
Convertible notes payable, net of debt discount of $57,586 as of December 31, 2020	2,142,414	-
Total long term liabilities	2,142,414	609
Total liabilities	5,097,306	6,113,092
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, 2020 (aggregate liqidation preference of $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, 2020 and December 31, 2019 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of December 31, 2020 and December 31, 2019 (aggregate liquidation preference of $6,600,207 and $6,257,975 as of December 31, 2020 and December 31, 2019, respectively)	517	517
Common stock – par value $0.001 per share; 125,000,000 and 100,000,000 shares authorized as of December 31, 2020 and 2019, respectively; 52,679,847 and 51,588,145 shares issued and 51,500,635 and 50,408,933 shares outstanding as of December 31, 2020 and December 31, 2019, respectively	52,679	51,587
Additional paid-in capital	34,893,278	34,242,985
Treasury stock, at cost, 1,179,212 shares as of December 31, 2020 and December 31, 2019	(3,419,715)	(3,419,715)
Accumulated deficit	(34,182,121)	(34,481,214)
Total stockholders' deficiency	(2,655,362)	(3,605,840)
Total liabilities and stockholders' deficiency	$ 3,341,944	$ 2,507,252

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, 2020	2019
Total net sales	$ 17,178,985	$ 15,755,577
Cost of sales	5,831,003	5,394,390
Gross profit	11,347,982	10,361,187
Selling, general and administrative expenses	11,397,106	10,205,484
Income (loss) from operations	(49,124)	155,703
Other income (expense):		
Gain on debt forgiveness	890,000	-
Interest expense	(199,550)	(255,103)
Total other income (expense)	690,450	(255,103)
Net income (loss)	641,326	(99,400)
Preferred stock:		
Series B convertible preferred stock contractual dividends	(342,233)	(342,233)
Net income (loss) attributable to common stockholders	$ 299,093	$ (441,633)
Per share data:		
Net income (loss) – basic	$ 0.01	(0.00)
Net income (loss) – diluted	0.01	(0.00)
Series B convertible preferred stock contractual dividends	(0.01)	(0.01)
Net income (loss) attributable to common stockholders - basic	$ 0.01	$ (0.01)
Net income (loss) attributable to common stockholders - diluted	$ 0.00	$ (0.01)
Weighted average number of common shares outstanding - basic	50,900,267	49,923,926
Weighted average number of common shares outstanding - diluted	70,309,974	49,923,926

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, 2020 AND 2019

	Series C Redeemable and Convertible 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, 2019	-	$ -	517,359	$ 517	50,197,760	$ 50,197	$ 33,682,223	1,179,212	$ (3,419,715)	$ (34,039,581)	$ (3,726,359)
Stock-based compensation	-	-	-	-	557,236	557	372,794	-	-	-	373,351
Exercise of options into common stock	-	-	-	-	100,000	100	10,700	-	-	-	10,800
Common shares issued for previously accrued compensation	-	-	-	-	700,089	700	177,301	-	-	-	178,001
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(342,233)	(342,233)
Exercise of warrants into common stock	-	-	-	-	33,060	33	(33)		-	-	-
Net loss	-	-	-	-	-	-	-	-	-	(99,400)	(99,400)
Balances, December 31, 2019	-	$ -	517,359	$ 517	51,588,145	$ 51,587	$ 34,242,985	1,179,212	$ (3,419,715)	$ (34,481,214)	$ (3,605,840)
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 0	$ 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)

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			
	2020		2019	
Cash flows from operating activities				
Net income (loss)	$	641,326	$	(99,400)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization		133,576		163,653
Stock-based compensation		509,293		421,935
Gain on sale of equipment		-		(28,979)
Gain on debt forgiveness		(890,000)		-
Gain on extinguishment of accounts payable				(52,630)
Amortization of debt discount		37,954		12,262
Changes in operating assets and liabilities:				
Accounts receivable		(127,905)		9,248
Inventories		15,020		(38,161)
Prepaid expenses and other current assets		(48,568)		38,159
Accounts payable		(181,597)		7,062
Accrued expenses and other current liabilities		161,770		168,401
Net cash provided by operating activities		250,869		601,550
Cash flows from investing activities				
Capital expenditures		(10,080)		(1,159)
Proceeds from sale of equipment		-		35,000
Net cash provided by (used in) investing activities		(10,080)		33,841
Cash flows from financing activities				
Repayment of capital lease		(6,345)		(5,948)
Repayment of notes payable		(3,239,678)		-
Proceeds from the exercise of stock options		-		10,800
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		4,852
Net increase in cash		796,735		640,243
Cash, cash equivalents and restricted cash - beginning of period		1,068,690		428,447
Cash, cash equivalents and restricted cash - end of period	$	1,865,425	$	1,068,690

Cash paid for:				
Interest	$	152,490	$	242,840
Non-cash investing and financing activities:				
Cashless exercise of warrants into common stock	$	-	$	33
Warrants issued in connection with convertible notes payable	$	57,509	$	-
Accrual of contractual dividends on Series B convertible preferred stock	$	342,233	$	342,333
Common stock issued to satisfy accrued directors' fees	$	102,583	$	212,000
Options issued to satisfy accrued directors' fees	$	90,000	$	-
Common stock issued to satisfy non-cash executive bonus	$	-	$	125,000
Conversion of notes payable to convertible notes payable	$	500,000	$	-
Conversion of shares of Series C Preferred to common share	$	100,000	$	-

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 reduced from $4,611,530 at December 31, 2019 to $495,751 as of December 31, 2020 and the stockholder deficiency improved from $3,605,840 at December 31, 2019 to $2,655,362 as of December 31, 2020. For the year ended December 31, 2020, the Company earned net income of $641,326, which included an $890,000 gain on the forgiveness of the PPP loan, and had net cash provided by operating activities of $250,869 for the year ended December 31, 2020. As of December 31, 2020, the Company had cash, cash equivalents and restricted cash totaling $1,865,425.

During 2020, the Company reduced its current obligations by completing the 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. The primary component of the Company's remaining current obligations is the accrued dividends totaling $1,711,165 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.

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

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

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, 2020, the Company had $1,652,795 of cash equivalents which were money market accounts held at banks and other financial institutions.

Restricted Cash

Restricted cash represented cash held by the Company's credit card processor as a reserve to cover potential future refunds and funds held by the senior lender as collateral for the Company's Senior Note. See Note 6 – Notes Payable to the consolidated financial statements for additional information. The Company's Senior Note was repaid in full in June 2020 which terminated the cash collateral requirement and the Company's excess funds no longer had to be classified as restricted cash. Cash and cash equavalents and Restricted Cash, as presented on the consolidated statements of cash flows, consists of $1,815,638 and $49,787, as of December 31, 2020, respectively, and $2,355 and $1,066,335 as of December 31, 2019, 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 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 fulfillment customers ranging from 10 to 30 days. If the financial conditions of fulfillment 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, 2020 and 2019.

Inventories

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

Property and Equipment, net

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

Impairment of Long-Lived Assets

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

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, 2020 and 2019. 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, 2020 and 2019.

Debt Discounts

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

Revenue Recognition

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

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

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

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the Company for fulfillment services are 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 fulfillment customers ranging from 10 to 30 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.

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company has received customer deposits from the customer but has not yet provided the fulfillment services. The Company had contract liabilities of $0 and $9,378 as of December 31, 2020 and 2019, 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, 2020.

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 $1,795,668 and $1,520,759 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 were $460,107 and $332,795, respectively.

Advertising and Marketing Expenses

The Company expenses all advertising and marketing costs as incurred and were $1,872,831 and $1,532,366 for the years ended December 31, 2020 and 2019, 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 2020, 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	
	2020	**2019**
Net income (loss) attributable to common shareholders	$ 299,093	$ (441,633)
Weighted-average common shares, basic	50,900,267	49,923,926
Weighted-average common shares, diluted*	70,309,974	49,923,926
Net income (loss) per common share, basic	$ 0.01	$ (0.01)
Net income (loss) per common share, diluted	$ 0.00	$ (0.01)

* 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 the period.

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

	December 31,	
	2020	**2019**
Options	2,408,108	2,694,395
Warrants	473,367	473,367
Series B Convertible Preferred Stock	7,656,914	6,192,788
Total potentially dilutive shares	10,538,389	9,360,550

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, 2020 and 2019 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 Undertainties

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. These efforts increased our expenses during the first half of 2020. Changes in consumer purchasing behavior during the first half of 2020 increased demand and, in turn, resulted in increased sales compared to the first half of last year. The increased demand resulted in shortages of various prescription and over-the-counter medications during the first half of 2020 which impacted our order conversions and processing times during that period. The Company continues to experience shortages in the supply of medications, albeit to a lesser extent than was experienced during the first half of the year.

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.

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

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2020	December 31, 2019	Useful Life (Years)
Computer Software	$ 240,379	$ 230,299	5 years
Equipment	1,257,456	1,257,456	10 years
Office Furniture and Equipment	103,602	103,602	7 years
Computer Hardware	50,998	50,998	5 years
Leasehold Improvements	322,973	322,973	(a)
Total	1,975,408	1,965,328	
Less: Accumulated Depreciation	(1,092,605)	(959,029)	
Property and Equipment, Net	$ 882,803	$ 1,006,299	

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

Depreciation expense for the above assets for the years ended December 31, 2020 and 2019 was $133,576 and $163,653, respectively.

During the year ended December 31, 2019, the Company sold equipment for $35,000 and recognized a gain on the sale of $28,979 which was included in selling, general and administrative expenses.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2020	December 31, 2019
Salaries and Benefits	$ 172,363	$ 166,002
Dividend Payable	1,711,165	1,368,932
Accounting	59,738	95,980
Accrued Interest	28,435	28,435
Accrued Rent	16,334	12,705
Sales Tax Payable	117,863	24,909
Advertising	50,700	20,000
Accrued Engineering Fees	47,000	-
Accrued Director Fees	64,000	48,583
Deferred Revenue	2,387	3,621
Other	58,379	39,777
	$ 2,328,364	$ 1,808,944

6. Notes Payable

Notes payable consisted of the following:

	December 31, 2020	December 31, 2019
Millenium Note	$ -	$ 500,000
Kapok Promissory Note	-	1,989,678
Convertible Promissory Note	2,200,000	-
Less debt discount	(57,586)	-
Total debt	2,142,414	2,489,678
Less current portion	-	(2,489,678)
Long-term debt, less current portion	$ 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. As of December 31, 2020, the outstanding principal balance on the Convertible Promissory Notes was $2,142,414, net of the debt discount of $57,586, and accrued interest was $33,000.

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 investment 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 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.

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 are 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, are 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.

Common Stock

During the years ended December 31, 2020 and 2019, the Company issued an aggregate of 536,145 and 770,944 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 $102,584 and $212,000 for the years ended December 31, 2020 and 2019, respectively, of which $48,584 and $53,000 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 $0.26 per share in 2020 and between $0.23 and $0.34 in 2019.

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.

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

Stock-based compensation expense related to common stock issued was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $78,000 and $207,583 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, Series B holders were entitled to convert into 14.8 and 11.97 shares, respectively, of the Company's common stock for each share of Series B Preferred Stock due to the anti-dilution provision. The anti-dilution provision represents a beneficial conversion feature. As of December 31, 2020, 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, 2020 and 2019. 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.

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, 2020 and 2019, the Company had accrued contractual dividends of $1,711,165 and $1,368,932, 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 classified as a current liability as of December 31, 2019 in the Company's consolidated balance sheet.

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 (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 mezzanine equity as of December 31, 2020 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.

Stock Options

Grants

The weighted average fair value of the stock options granted during the year ended December 31, 2020 was $0.11.

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.

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.

During the year ended December 31, 2019, the Company granted options to key employees and executives of the Company to purchase an aggregate of 1,250,000 shares of common stock under a previously approved plan at exercise price of $0.32 per share for an aggregate grant date value of $415,423. The options vest over a three-year period and have a term of ten years. The options granted included options to purchase an aggregate of $1,200,000 shares of common stock that were issued to replace options previously issued to key employees during 2018. In accounting for the modification of the options, it was determined that the difference was immaterial.

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the years ended December 31, 2020 and 2019, the Company used the following weighted average assumptions:

	Year Ended December 31	
	2020	2019
Risk-free interest rate	0.33% to 1.37%	2.45%
Expected dividend yield	0.0%	0.0%
Expected volatility	179.0% to 181.0%	183.0%
Weighted average expected life (contractual term) in years	5.5 to 6.0	6.0

Stock-based compensation expense related to stock options was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $431,293 and $214,353 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, stock-based compensation expense related to stock options of $439,195 remains unamortized which is being amortized over the weighted average remaining period of 1.6 years.

Summary

A summary of the stock option activity during the years ended December 31, 2020 and 2019 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2019	2,954,845	$ 0.59		
Granted	1,250,000	0.32		
Exercised	(100,000)	0.11		
Forfeited	(1,410,450)	0.47		
Outstanding, January 1, 2020	2,694,395	$ 0.41		
Granted	3,093,460	0.11		
Exercised	-	-		
Forfeited	(55,500)	0.36		
Outstanding, December 31, 2020	5,732,355	$ 0.26	7.9	$ 128,279
Exercisable, December 31, 2020	2,040,691	$ 0.41	6.4	$ 21,767

The following table presents information related to stock options outstanding and exercisable at December 31, 2020:

	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	$ 0.11	3,324,247	$ 0.12	5.8	674,247
$0.22 - $0.35	$ 0.32	2,288,108	$ 0.31	7.1	1,246,444
$0.53 - $1.60	$ 0.87	66,000	$ 0.87	2.7	66,000
$4.10 - $6.99	$ 5.85	54,000	$ 5.85	1.0	54,000
$0.09 - $6.99	$ 0.26	5,732,355	$ 0.41	6.4	2,040,691

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	
	2020	2019
Risk-free interest rate	1.41%	n/a
Expected dividend yield	0.00%	n/a
Expected volatility	181.0%	n/a
Weighted average expected life (contractual term) in years	5.0	n/a

Grants

During the year ended December 31, 2020, the Company issued warrants to purchase an aggregate of 500,000 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 $0.11 which was the 30-day weighted average closing share price. The warrants have a term of five years and an aggregate grant date value of $57,509 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, 2020 and 2019 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2019	4,866,151	$ 0.31		
Granted	-	-		
Exercised	(66,120)	0.25		
Forfeited	(4,326,664)	0.35		
Outstanding, January 1, 2020	473,367	$ 0.66		
Granted	500,000	0.11		
Exercised	-	-		
Forfeited	-	-		
Outstanding, December 31, 2020	973,367	$ 0.38	2.9	$ 20,000
Exercisable, December 31, 2020	973,367	$ 0.38	2.9	$ 20,000

The following table presents information related to stock warrants at December 31, 2020:

	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	$ 0.13	610,000	$ 0.13	3.5	610,000
$0.30 - $0.50	$ 0.41	333,367	$ 0.41	1.9	333,367
$4.95	$ 4.95	30,000	$ 4.95	1.8	30,000
$0.11 - $4.95	$ 0.38	973,367	$ 0.38	2.9	973,367

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 $16,334 and $12,705 as of December 31, 2020 and December 31, 2019, 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, 2020 were as follows:

	Operating Leases
2021	$ 102,787
2022	105,871
2023	109,047
2024	112,318
Total	$ 430,023

During the years ended December 31, 2020 and 2019, the Company recorded aggregate rent expense of $152,758 and $139,494, 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 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, except as described below.

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

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.

Four customers represented 41%, 19%, 13% and 12% of the accounts receivable balance as of December 31, 2020.

During the year ended December 31, 2020, three suppliers represented 41%, 21% and 20% of total inventory purchases. During the year ended December 31, 2019, three suppliers represented 35%, 23% and 21% of total inventory purchases.

One vendor represented 29% of the accounts payable balance at December 31, 2020. Two vendors represented 23% and 14% of the accounts payable balance as of December 31, 2019.

10. Related Party Transactions

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

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.

11. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2020 and 2019 was as follows:

	For The Years Ended December 31,	
	2020	2019
Federal:		
Current	$ -	$ -
Deferred	196,954	31,448
State and local:		
Current		-
Deferred	51,648	-
	248,602	31,448
Change in valuation allowance	(248,602)	(31,448)
Income tax provision (benefit)	$ -	$ -

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 3,961,750	$ 4,013,364
Stock-based compensation	275,699	469,179
Inventory reserves	7,169	7,039
Deferred revenue	544	905
Deferred rent	3,723	3,176
Amortization of Debt Discount	11,444	-
Total deferred tax assets	4,260,329	4,493,663
Valuation allowance	(4,176,275)	(4,424,877)
Deferred tax assets, net of valuation allowance	84,054	68,786
Deferred tax liabilities		
Property and equipment	(84,054)	68,786)
Deferred tax liabilities	(84,054)	(68,786)
Net deferred tax assets	$ -	$ -
Change in valuation allowance	$ (248,602)	$ (31,448)

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, 2020 and 2019.

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 2016 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, 2020. When these returns are filed for the year ended

December 31, 2020, the Company will have $16,969,621 and $17,210,209 of federal net operating loss carryforwards that may be available to offset future taxable income as of December 31, 2020 and 2019, respectively. The federal net operating loss carryforwards generated prior to 2018, if not utilized, will expire from 2028 to 2037. The federal net operating loss carryforwards generated in 2018 will carryforward indefinitely. As of December 31, 2020 and 2019, the Company had approximately $9,953,258 and $9,980,505 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, 2020 and 2019, 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,	
	2020	**2019**
US federal statutory rate	21.0%	(21.0%)
State tax rate, net of federal benefit	1.8%	(4.0%)
Permanent differences		
- Stock based compensation	41.8%	53.9%
- Payroll Protection Program debt extinguishment	(31.6%)	0.0%
- Other Permanent adjustments	0.4%	3.0%
Other	(0.6%)	(0.3%)
Change in State Tax Rate	6.0%	0.0%
Change in valuation allowance	(38.8%)	(31.6%)
Income tax provision (benefit)	0.0%	0.0%

12. Subsequent Events

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

Issuance of Common Stock and Options to Directors

On January 6, 2021, the Company issued an aggregate of 141,176 shares of common stock and options to purchase 244,196 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 2020. The shares had an aggregate grant date value of $24,000 and were valued at $0.17 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options had an exercise price of $0.17 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, 2020.

Issuance of Options to Employees and Executives

On January 21,2021 and February 12, 2021, the Company granted stock options to purchase an aggregate of 3,875,000 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 prices ranging between $0.16 and $0.17 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 $625,347.