HealthWarehouse.com, Inc.
Form 10-K
March 30, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________.

Commission file number 0-13117

HEALTHWAREHOUSE.COM, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2413505 (I.R.S. Employer Identification No.)
7107 Industrial Road, Florence KY (Address of principal executive offices)	41042 (Zip Code)

Registrant's telephone number, including area code: (800) 748-7001

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of voting and nonvoting common equity held by non-affiliates, based on the closing price of the common stock, par value $0.001 (the “Common Stock”) on June 30, 2014 of $0.16, as reported on the OTCQB market tier was approximately $2,968,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

There were 37,570,383 shares of Common Stock outstanding as of March 27, 2015.

DOCUMENTS INCORPORATED BY REFERENCE: None

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Information Regarding Forward-Looking Statements

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

significant changes in consumer demand for our products, resulting in volatility of our operating results and financial condition;

our ability to effectively respond to changing market conditions;

whether as a result of market conditions, or our financial condition or otherwise, the possibility that we will not be able to raise sufficient additional capital needed to operate our business;

unexpected costs, lower than expected sales and revenues, and operating deficits;

our ability to obtain supply at favorable rates;

unexpected changes in our industry's competitive forces including the manner and degree in which our competitors serve our target market;

our ability to attract or retain qualified senior management personnel; and

other specific risks that may be referred to in this report including those in Part I, Item 1A, "Risk Factors.".

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

Information regarding market and industry statistics contained in this report is included based on information available to us that we believe is accurate. It is generally based on academic and other publications that are not produced for purposes of securities reports or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We have no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. See “Risk Factors” for a more detailed discussion of risks and uncertainties that may have an impact on our future results.

If you are interested in HealthWarehouse.com, Inc. stock, we recommend that, at a minimum, you read the SEC Forms 10-K, 10-Q and 8-K each filed by HealthWarehouse.com, Inc. (the “Company”) with the SEC and available at http://www.sec.gov.

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PART I

Item 1: Business.

Overview

HealthWarehouse.com, Inc. ("HEWA" or the "Company") is America's Trusted Online Pharmacy, licensed in 50 states and the District of Columbia to focus on the out-of-pocket prescription drug market, a market which is expected to grow to $80 billion in 2015. HealthWarehouse.com is currently 1 of less than 40 Verified Internet Pharmacy Practice Websites ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP") and is the only VIPPS accredited pharmacy licensed in all 50 states that processes out-of-pocket prescriptions online. The Company markets a complete range of generic, brand name, and pet prescription medications as well as over-the-counter ("OTC") medications and products.

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

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

Our objectives are to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We are becoming known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medications. We intend to continue to expand our product line as our business grows. Our customers include uninsured, under-insured, and insured consumers with high insurance co-payments who rely on our service for their daily prescription medications. With many brand name drug patents continuing to expire over the next several years and a general trend of rising insurance co-payments and deductibles due to the Affordable Care Act, our service is expanding to mainstream insured consumers of prescription medications, as the market continues to move away from brand name prescription drugs to generics. Once the patent on a branded drug has expired, we can typically sell its generic equivalent for less than the purchaser's insurance co-payment. Accordingly, we are focused on the cash paying customers and do not accept consumer insurance payment.

Historical Background

In March 2007, Hwareh.com, Inc. ("Old HW"), a Delaware corporation formerly named HealthWarehouse.com, Inc., was incorporated to carry on the business of selling OTC products. In November 2007, we began to develop the proprietary software necessary for our business, and in February 2008, version 1.0 of the http://www.healthwarehouse.com website was successfully launched running on our own proprietary software.

In March 2008, as part of our expansion into prescription drugs, we completed construction of a full service licensed pharmacy within our warehouse in Loveland, Ohio. This pharmacy passed inspection by the Ohio State Pharmacy Board in April 2008.

Effective August 5, 2009, we changed our corporate name to HealthWarehouse.com, Inc., simultaneously with our name change, we changed the corporate name of our subsidiary to Hwareh.com, Inc. In connection with the name change, we also obtained a new ticker symbol for quotation, and our Common Stock currently trades on the OTCQB Market Tier under the symbol, "HEWA."

On February 14, 2011, Hocks Acquisition Corporation ("Hocks Acquisition"), a wholly-owned subsidiary we formed for the purpose of the acquisition, entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Hocks Pharmacy of Hocks Pharmacy, Inc., an Ohio corporation ("Hocks Pharmacy"), to purchase, for $200,000 in cash all of the inventory and fixed assets (the "Purchased Assets") owned by Hocks Pharmacy and used in the operation of its internet pharmacy business (the "Internet Business). The Internet Business consists primarily of the internet sale of over-the-counter health and medical products and supplies. That same day, we acquired all of the intangible assets of the internet business, including domain names and customer accounts, in a reverse merger of Hocks Acquisition into Hocks.com Inc. ("Hocks.com"), a newly formed Ohio corporation and then wholly-owned subsidiary of Hocks Pharmacy. As a result, Hocks.com Inc. became our wholly-owned subsidiary.

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On June 15, 2011 the Company commenced a lease on a new facility in Florence, KY. On August 1, 2011, the Company transferred its operations to the new facility.

Our Business Model

Our business model seeks to improve both the efficiency and convenience by which consumers obtain prescription medications. To increase efficiency, we make efforts to source products from either the manufacturer or wholesaler level, eliminating unnecessary costs associated with distribution. In addition, we distribute medications to the consumer from a single warehouse, as opposed to retail locations, which we believe eliminates unnecessary costs such as real estate, rents, inventory, and personnel. By going directly to the consumer via the Internet, we reduce our marketing expense and increase convenience for consumers, especially those taking maintenance medications for conditions ranging from diabetes to high blood pressure.

Current Healthcare Distribution Model	Our Distribution Model
Manufacturer	Manufacturer
,	,
Wholesaler	,
,	,
Distributor	HealthWarehouse.com
,	,
Pharmacy	,
,	,
Consumer	Consumer

Our target is consumers who are paying out-of-pocket for their medications. Out-of-pocket consumers have increased significantly since insurance co-pays are rising and high deductible plans are becoming more prevalent due to the Affordable Care Act.

Our VIPPS Accredited Online Pharmacy

We operate a full-service online pharmacy within our warehouse in Florence, Kentucky, 15 miles south of Cincinnati, Ohio. The pharmacy includes two robotic machines, which can each count and package 1,200 prescriptions per day. Our pharmacy passed inspection by the Kentucky Board of Pharmacy, and we are presently licensed as a mail-order pharmacy for sales to all 50 states and the District of Columbia.

Our online pharmacy offers the following advantages:

Legitimacy. We have obtained state licenses and certifications to separate ourselves from the many uncertified “rogue” pharmacies which exist. We are the 19th pharmacy in the U.S. to receive Verified Internet Pharmacy Practice Sites accreditation, issued by the National Association of Board of Pharmacy. Google, Yahoo, and Bing now all require VIPPS as a requirement to advertise on their sites.

Convenience. Our online store is available to consumers 24 hours a day, 7 days a week through the Internet. We deliver medications with available free shipping to any location in the United States including Alaska and Hawaii. We offer 6-month and 12-month supplies of medications to reduce the need for refills. All of our products are also available for purchase by phone. We offer additional convenience to our customers through an easy-to-use website, robust search technology, and a variety of features such as auto-refill.

Selection. Due to our online structure, we are able to offer a significantly broader assortment of products, with greater depth in each product category, because we do not have the shelf display space limitations of brick-and-mortar drugstores.

Information. We provide a broad array of interactive tools and information on our website to help consumers make informed purchasing decisions. Our information services include detailed product information pages, product user manuals and brochures, links to manufacturer websites, detailed product descriptions which contain the manufacturer's phone number, and customer reviews. Our customer care representatives are available by phone or email to provide personal guidance and answer customers' questions.

Privacy. When shopping at a “brick-and-mortar” drugstore, many consumers may feel embarrassed or uncomfortable about buying items or asking questions that may reveal personally sensitive aspects of their health or lifestyle to pharmacists, store personnel, or other shoppers. Our customers avoid these problems by shopping from the privacy of their home or office.

Value. Our goal is to offer shoppers a broad assortment of generic drugs and health products with competitive pricing. We strive to improve our operating efficiencies and to leverage our fixed costs so that we can pass along the savings to our customers in the form of lower prices and exclusive deals. Since we source drugs direct from the manufacturer at the wholesale level and eliminate third party payors such as insurance companies, we believe that we have lower costs than traditional pharmacies which allows us to provide consumers with better values. We also strive to inform customers of additional cost-saving opportunities when they become available. For example, we show the generic equivalents of all brand name products and also offer 6 and 12 month supplies of our medications to consumers to reduce refills and provide better value.

Customer Service. Our focus has been on customer service and we endeavor to lead the industry in our policies and procedures. We currently offer a satisfaction guarantee with what we believe is an industry-leading 90-day return policy with no restocking fees, and available free standard shipping. We are prevented by law from accepting returns for any prescription medication. We have received numerous awards for customer service and satisfaction.

Our customer support representatives operate from our call center in Florence, Kentucky. Our customer support specialists are available 9 a.m. to 9 p.m. Eastern Time, Monday through Friday, and 9a.m. to 5p.m. Eastern Time on Saturday and Sunday, via e-mail, online chat, fax or telephone to handle customer inquiries and assist customers in finding desired products. Our online Help Center outlines store policies and provides answers to customers’ frequently asked questions.

We ship our products to all 50 states, the U.S. Territories, and APO/FPO military and embassy addresses. We process all orders from our distribution center in Florence, Kentucky, 15 miles south of Cincinnati, Ohio. We based our logistics operation there to maintain proximity to UPS, located 90 miles away in Louisville, Kentucky. Processing from this location allows us to reach up to 80% of the U.S. population by standard ground shipping in two days from shipment date. In order to try to maintain high customer satisfaction ratings and quality control over the process, we avoid drop shipping orders. Due to the relatively short lead time required to fill orders for our products, usually 24 to 48 hours, order backlog has not proven material to our business.

Marketing and Sales

Our marketing strategy aims to build brand recognition, increase customer traffic to our online store, add new customers, build strong customer loyalty, maximize repeat purchases and develop incremental revenue opportunities. In addition, we focus on providing fast, transparent filling of prescriptions and increase word of mouth marketing to consumers. We focus on search engine marketing with Google as well as targeted areas within Google like Google Shopping, which require VIPPS to advertise. As the only VIPPS accredited pharmacy licensed in all 50 states and the District of Columbia that sells to consumers online, we believe this provides the company with a unique avenue to reach customers with limited competition. In addition, the Company focuses on targeted referral sites such as GoodRX and Nextag which direct consumers to low cost options for their prescription medications and other medical supplies. We continue to utilize social media, including Facebook and Twitter as a way to reach consumers and build a dialogue with them.

Suppliers

There are a number of suppliers available for the pharmaceutical and non-pharmaceutical products that we sell. Our principal suppliers are Amerisource Bergen, Cardinal Health, Allison Medical, Inc and Indigo Distributors as well as many direct manufactures like Anda, Nipro, Parmed, and Camber. While we source our supplies from a limited number of suppliers, we do not believe that our business is dependent on any one supplier since the products that we sell are readily available from a number of alternative suppliers. Even if a significant supplier were to no longer be available to us, we believe that we could source replacement product through one or more alternative suppliers without having a significant effect on our business.

Customers

We sell directly to individual consumers who purchase prescription medications and OTC products. We have seen a transition from uninsured consumers to more than 90% of our customers having insurance. Rising insurance co-pays and high deductible plans due to the Affordable Care Act, have created more consumers paying out-of-pocket. This market was estimated to be $45 billion in 2011 is expected to grow to $80 billion by the end of 2015.

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Competition

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

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

Intellectual Property and Technology

We filed for a trademark on the name "HealthWarehouse.com" on August 14, 2007 with the U.S. Patent and Trademark Office, which trademark was granted with a registration date of May 19, 2009. On February 14, 2011, we acquired the registered trademark "Hocks.com" in connection with our purchase of the online reseller business of Hocks Pharmacy Inc. We also rely on trade secret law and contractual restrictions to protect our intellectual property, and we do not intend to seek patent or copyright protection for our intellectual property at this time.

We have implemented a broad array of services and systems for website management, product searching, customer interaction, transaction processing, and order fulfillment functions. These services and systems use a combination of our own proprietary technologies, open-source technologies and commercially-available, licensed technologies.

We focus our internal development efforts on creating and enhancing the specialized, proprietary software that is unique to our business. For example, our core merchandise catalog, as well as our customer interaction, order collection, fulfillment and back-end systems are proprietary to us. Our systems are designed to provide real-time connectivity to our distribution center systems for both pharmacy and OTC products. They include an inventory tracking system, a real-time order tracking system, an executive information system and an inventory replenishment system.

Our website at http://www.healthwarehouse.com is hosted on the Amazon EC2 platform ("EC2") due to the platform's perceived cost effectiveness and scalability. EC2 allows us to pay only for bandwidth used. In addition, due to Amazon's lengthy experience at running servers capable of serving one of the largest commerce sites on the web, our site remains scalable on days where our traffic spikes.

Our website was developed using 100% open source code. We use a 100% open source platform which runs on Linux, Apache, MySQL and PHP (LAMP).

Government Regulation

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

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

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

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

Regulation of Our Pharmacy Operations

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

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

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

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

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

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

Drug Importation

In the face of escalating costs for plan sponsors providing a prescription drug benefit for their employees, and uninsured individuals seeking to lower their drug costs, the issue of importing drugs from Canada or other foreign countries has received significant attention. Drug importation, sometimes called drug re-importation, occurs when prescription medicines from other countries are imported for personal use or commercial distribution. Individual importation activities are generally prohibited under U.S. law, and the FDA has issued warnings and safety alerts to a number of entities seeking to promote or facilitate systematic importation activities. However, there has been considerable legislative and political activity seeking to change the FDA requirements to enable drug importation, and we are evaluating appropriate actions if such legislation were to be enacted.

Health Management Services Regulation

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

Consumer Protection Laws

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

Regulation Relating to Data Transmission and Confidentiality of Patient Identifiable Information

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

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

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

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

Services (CMS), the Department of Justice (DOJ), and the FDA. To ensure compliance with Medicare, Medicaid and other regulations, government agencies conduct periodic audits to ensure compliance with various supplier standards and billing requirements. Similarly, regional health insurance carriers routinely conduct audits and request patient records and other documents to support claims submitted for payment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Industry Standards for Pharmacy Operations

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

The National Association of Boards of Pharmacy has also developed a program, the Verified Internet Pharmacy Practice Sites, as a model for self-regulation for online pharmacies. The Company has been certified by VIPPS since 2008.

Employees

As of March 15, 2015, we employed 23 full-time employees and 16 part-time employees. The Company at March 15, 2015, had 1 non-contractual laborer. None of our employees are subject to a collective bargaining agreement and we believe that relations with our employees are good. The Company, from time to time, also utilizes independent contractors to supplement its workforce.

Item 1A: Risk Factors

Risks Related to the Deficiencies in Our Internal Controls and Our Failure to File Timely Periodic Reports with the SEC.

We have identified material weaknesses in our internal control over financial reporting, and have concluded that our internal controls were not effective as of December 31, 2014 and 2013. We may be unable to remedy these deficiencies or develop, implement and maintain effective controls in future periods.

Based on the review conducted by our non-management directors and management's annual assessment of our internal controls, we concluded that, as of December 31, 2014, our internal controls over financial reporting were not effective. Management believes that the controls, policies and procedures implemented during the period have improved our internal controls over financial reporting, but based on our assessment, management has concluded that as of December 31, 2014, our disclosure controls were not effective. The specific material weaknesses identified by the directors and management are described more fully in Part II—Item 9A, "Controls and Procedures".

Even if we are able to fully implement a remediation plan in the future, we cannot assure you that we will be able to remedy these material weaknesses, that additional material weaknesses or other deficiencies in our internal controls will not arise in the future or that our internal controls will be adequate in all cases to prevent us from reporting inaccurate financial information. A failure in our internal controls could result in material misstatements in our reported financial information or misappropriation of our assets. Such failures or misstatements could result in investors losing confidence in our reported financial information, which may adversely affect the market price of our Common Stock or restrict our ability to raise capital. In addition, we may be subject to investigations by or sanctions from the SEC or other governmental authorities and lawsuits from investors, all of which could adversely affect our results of operations.

Risks Relating to Our Business and Industry

We have a limited operating history, a history of generating significant losses, we have a substantial working capital deficiency and a stockholders' deficiency; and may not be able to sustain profitability. The report of our independent registered public accounting firm contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern.

Old HW, which now constitutes our principal business, was formed in March 2007 and has a limited operating history upon which you can evaluate our business and prospects. To date, we have not been profitable, and we may never achieve profitability on a full-year or consistent basis. We incurred net losses of $1,783,279 and $5,489,892 for the years ended December 31, 2014 and 2013, respectively. On February 13, 2013, we received a Notice of Redemption of our Series C Redeemable Preferred Stock aggregating $1,000,000 which is classified as a current liability as the Company does not have the funds for repayment. The report of our independent registered public accounting firm with respect to our financial statements as of December 31, 2014 and for the year then ended contains an explanatory paragraph that expresses substantial doubt about the Company's ability to continue as a going concern. The report also states that, we have incurred significant operating losses and we need to raise additional funds in order to meet our obligations and sustain operations. Our plans in regard to these matters are described in footnote 2 to our consolidated financial statements as of December 31, 2014 and for the years ended December 31, 2014 and 2013 included herein this document. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. If our plans or assumptions change or prove to be inaccurate, we may continue to incur net losses in 2015, and possibly longer. As a result, investors may lose all or a part of their investment.

We may experience significant fluctuations in our operating results and rate of growth.

Our evolving business model and the unpredictability of our industry make it difficult for us to forecast accurately the level or source of our revenues and our rate of growth. Our financial projections are based on assumptions and estimates that inherently are subject to significant business, economic, competitive, regulatory and operational uncertainties, contingencies and risks, many of which are beyond our control. Our projections assume the success of our business strategy. The success of this strategy is subject to uncertainties and contingencies beyond our control, and we cannot assure you that the strategy will be successful or that the anticipated benefits from the strategy will be realized in the manner or during the periods reflected in our projections or at all. These uncertainties may result in material changes in our financial condition and results of operations, which may differ materially from our projections.

Our revenues and operating results may vary significantly from quarter to quarter.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, including:

our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers' demands;

the frequency and size of customer orders and the quantity and mix of OTC and prescription products our customers purchase;

changes in demand with respect to existing and new OTC and prescription products;

changes in consumer acceptance and usage of the Internet, online services, and e-commerce;

the price we charge for our OTC and prescription products and for shipping those products, or changes in our pricing policies or the pricing policies of our competitors;

the extent to which we offer free shipping or other promotional discounts to our customers;

our ability to acquire merchandise, manage inventory, and fulfill orders;

technical difficulties, system downtime, or interruptions;

timing and costs of upgrades and developments in our systems and infrastructure;

timing and costs of marketing and other investments;

disruptions in service by shipping carriers;

the introduction by our competitors of new websites, products, or services;

the extent of reimbursements available from third-party payers; and changes in government regulation.

In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are fixed in the short term. As a result, a delay in generating or recognizing revenue for any reason could result in substantial additional operating losses.

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We face significant competition from both traditional and online domestic pharmaceutical and medical product retailers.

The market segments in which we compete are rapidly evolving and intensely competitive, and we have many competitors in different industries, including both the retail and e-commerce services industries. These competitors include chain drugstores, mass market retailers, warehouse clubs, supermarkets, specialty retailers, major department stores, insurers and health care providers, mail-order pharmacies, Internet portals and online service providers that feature shopping services, and various online stores that offer products within one or more of our product categories. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition, and significantly greater financial, marketing, and other resources than we have. They may be able to secure merchandise from vendors on more favorable terms, operate with a lower cost structure, adopt more aggressive pricing policies, or devote more resources to technology development and marketing than we do. In addition, other companies in the retail and e-commerce service industries may enter into business combinations or alliances that would strengthen their competitive positions and prevent them, their affiliated companies, or their strategic partners from entering into relationships with us. For example, our inability to enter into or maintain relationships with major insurance companies or managed care organizations could be a major competitive disadvantage to us.

We face competition from online pharmacies outside the United States.

Although it is currently illegal to re-import prescription drugs into the United States from any foreign country, we nonetheless face competition from online pharmacies outside the United States. A growing number of U.S. consumers seek to fill their prescriptions through Canadian and other foreign online pharmacies, and a number of state and local governments have set up websites directing their constituents to Canadian pharmacies. The FDA has taken only limited action to date, and may not take aggressive action in the future, against those who illegally re-import prescription drugs or support or facilitate illegal re- importation. In the U.S. Congress, legislation allowing for re-importation of prescription drugs by individuals for personal use has repeatedly been introduced. If such legislation were to be enacted, or if consumers increasingly use foreign-based online prescription drug websites instead of U.S.-based online pharmacies, such as ours, to fill their prescription needs, our business and operating results could be harmed.

We may be unable to increase the migration of consumers of health and pharmacy products from brick-and-mortar stores to our online solution, which would harm our revenues and prevent us from becoming profitable.

If we do not attract and retain higher volumes of customers to our Internet store at a reasonable cost, we will not be able to increase our revenues or achieve consistent profitability. Our success depends on our ability to continue to convert a large number of customers from traditional shopping methods to online shopping for health and pharmacy products. Specific factors that could prevent widespread customer acceptance of our online solution include:

- shipping charges, which do not apply to purchases made at a “brick-and-mortar” store;
- delivery time associated with Internet orders, as compared to the immediate receipt of products at a brick-and-mortar store;
- lack of consumer awareness of our website;
- additional steps and delays in verifying prescriptions and ensuring insurance coverage for prescription products;

non-participation in the networks of some insurance carriers;

regulatory restrictions or reform at the state and federal levels that could affect our ability to serve our customers;

the general acceptance or legalization of prescription drug re-importation;

customer concerns about the security of online transactions, identity theft, or the privacy of their personal information;

product damage from shipping or shipments of wrong or expired products from us or other vendors, resulting in a failure to establish, or loss of, customers' trust in buying drugstore items online;

- inability to serve the acute care needs of customers, including emergency prescription drugs and other urgently needed products;
- delays in responses to customer inquiries;
- difficulties or delays in returning or exchanging orders; and
- activity that diminishes a user's online experience or subjects online shoppers to security risks, such as viruses, spam, spyware, phishing (spoofing e-mails directed at Internet users), "denial of service" attacks directed at Internet service providers and online businesses, and breaches of data security.

Changing competitive forces within the healthcare industry may adversely affect our ability to obtain and sustain a competitive advantage.

In recent years, pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers. Many healthcare organizations also have consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. Additionally, erosion of our competitive advantage may result from increased competition in our target market through supply and distribution methods similar to our own by those companies with which we currently compete but who have a more established operating history. Furthermore, changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income.

If our marketing efforts are not effective at attracting and retaining customers at an acceptable cost, we will be unable to achieve profitability.

If we do not maintain our brand and continue to increase awareness of our Internet shopping presence, we may not build a critical mass of customers. Promoting and positioning our brand depends largely on the success of our marketing efforts and our ability to provide consistent, high quality customer experiences. We believe that, because we are a small company with low public brand awareness, achieving significant market awareness will require significant marketing expense. While our advertising efforts were scaled back during 2013 due to liquidity issues, we have historically incurred and expect to continue to incur in future years substantial expense in our marketing efforts both to attract and to retain customers. Our promotional activities may not be effective at building our brand awareness and customer base to the extent necessary to generate sufficient revenue to become consistently profitable. Search engine and other online marketing initiatives comprise a substantial part of our marketing efforts, and our success depends in part on our ability to manage costs associated with these initiatives, or to find other channels to acquire and retain customers cost-effectively. The demand for and cost of online advertising has been increasing and may continue to increase. An inability to acquire and retain customers at a reasonable cost would increase our operating costs and prevent us from achieving profitability.

Our profitability can be adversely affected by a decrease in the introduction of new brand name and generic prescription drugs.

Our sales and profit margins are materially affected by the introduction of new brand name and generic drugs. New brand name drugs can result in increased drug utilization and associated sales revenues, while the introduction of lower priced generic alternatives typically result in higher gross profit margins, due to the fact, the Company is able to purchase the generic drugs on a much more competitive cost basis. Accordingly, a decrease in the number of significant new brand name drugs or generics successfully introduced could adversely affect our results of operations.

Since our business is Internet-based, we are vulnerable to system interruption and damage, which would harm our operations and reputation.

Our ability to receive and fulfill orders promptly and accurately is critical to our success and largely depends on the efficient and uninterrupted operation of our computer and communications hardware and software systems. We experience periodic system interruptions that impair the performance of our transaction systems or make our website inaccessible to our customers. These systems interruptions delay us from efficiently accepting and fulfilling orders, sending out promotional e-mails and other customer communications in a timely manner, introducing new products and features on our website, promptly responding to customers, or providing services to third parties. Frequent or persistent interruptions in our services could cause current or potential customers to believe that our systems are unreliable, which could cause them to avoid our website, drive them to our competitors, and harm our reputation. To minimize future system interruptions, we need to continue to add software and hardware and to improve our systems and network infrastructure to accommodate increases in website traffic and sales volume, to replace aging hardware and software, and to make up for two years of underinvestment in technology. We may be unable to promptly and effectively upgrade and expand our systems and integrate additional functionality into our existing systems. Any unscheduled interruption in our services could result in fewer orders, additional operating expenses, or reduced customer satisfaction, any of which would harm our revenues and operating results and could delay or prevent our becoming consistently profitable. In addition, the timing and cost of upgrades to our systems and infrastructure may substantially affect our ability to achieve or maintain profitability.

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All of our fulfillment operations and inventory are located in our distribution facility, and any significant disruption of this center's operations would hurt our ability to make timely delivery of our products.

We conduct all of our fulfillment operations from our distribution facility in Florence, Kentucky, which houses our entire product inventory. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, server or systems failure, terrorist attack, or other comparable event at this facility, would cause interruptions or delays in our business and loss of inventory and could render us unable to process or fulfill customer orders in a timely manner, or at all. Further, we have no formal disaster recovery plan, and our business interruption insurance may not adequately compensate us for losses that may occur. In the event that a significant part of this facility was destroyed or our operations were interrupted for any extended period of time, our business, financial condition, and operating results would be harmed.

Our operating results will be harmed if we are unable to manage and sustain our growth.

Our business is unproven on a large scale and actual operating margins may be less than expected. If we are unable to scale capacity efficiently, we may fail to achieve expected operating margins, which would have an adverse effect on our operating results.

If we are unable to obtain shipments of products from our vendors, our business and results of operations would be harmed.

We have significant vendors that are important to our sourcing of pharmaceutical and non-pharmaceutical products. We do not have long-term arrangements with most of our vendors to guarantee availability of merchandise, particular payment terms, or extension of credit limits. If our current vendors were to stop selling merchandise to us on acceptable terms, we may not be able to acquire merchandise from other vendors in a timely and efficient manner and on acceptable terms, or at all.

We have significant inventory risk.

We must maintain sufficient inventory levels to operate our business successfully and to meet our customers' expectations that we will have the products they order in stock. However, we must also guard against the risk of accumulating excess inventory. We are exposed to significant inventory risk as a result of rapid changes in product cycles, changes in consumer tastes, uncertainty of success of product launches, seasonality, manufacturer backorders, and other vendor-related problems. In order to be successful, we must accurately predict these trends and events, which we may be unable to do, and avoid over- or under-stocking products. In addition, demand for products can change significantly between the time product inventory is ordered and the time it is available for sale. When we begin selling a new product, it is particularly difficult to forecast product demand accurately. A failure to optimize inventory would increase our expenses if we have too much inventory, and would harm our margins by requiring us to make split shipments for backordered items or pay for expedited delivery from the manufacturer if we had insufficient inventory. In addition, we may be unable to obtain certain products for sale on our website as a result of general shortages (for example, in the case of some prescription drugs), manufacturer policies (for example, in the case of some contact lenses and prestige beauty items), manufacturer or distributor problems, or popular demand. Failure to have inventory in stock when a customer orders it could cause us to lose that order or that customer. The acquisition of some types of inventory, or inventory from some of our sources, may require significant lead time or prepayment, and this inventory may not be returnable. We carry a broad selection of products and significant inventory levels of a substantial number of products, and we may be unable to sell this inventory in sufficient quantities or during the relevant selling seasons. The occurrence of one or more of these inventory risks may adversely affect our business and operating results.

If we make an error in filling or packaging the prescription drugs that we sell, we would be subject to liability and negative publicity.

Errors relating to prescriptions, dosage, and other aspects of the prescription medication could result in liability for us that our insurance may not cover. Because we distribute pharmaceutical products directly to the consumer, we are one of the most visible participants in the distribution chain and therefore have increased exposure to liability claims. Our pharmacists are required by law to offer counseling, without additional charge, to our customers about medication, dosage, delivery systems, common side effects, and other information deemed significant by the pharmacists. Our pharmacists may have a duty to warn customers regarding any potential adverse effects of a prescription drug if the warning could reduce or negate those effects. This counseling is in part accomplished through e-mails to our customers and inserts included with the prescription, which may increase the risk of miscommunication because the customer is not personally present to receive the counseling or advice or may not have provided us with all relevant information. Although we also post product information on our website, customers may not read this information. Providing information on pharmaceutical and other products creates the potential for claims to be made against us for negligence, personal injury, wrongful death, product liability, malpractice, invasion of privacy, or other legal theories based on our product or service offerings. Our general liability and business owners' liability insurance may not cover potential claims of this type or may not be adequate to protect us from all liabilities that may be imposed if any such claims were to be successful. In addition, errors by either us or our competitors may also produce significant adverse publicity either for us or for the online pharmacy industry in general, which could result in an immediate reduction in the amount of orders we receive and would harm our ability to conduct and sustain our business.

Security breaches would damage our reputation, expose us to liability and otherwise harm our business.

Our security measures may not prevent security breaches that could harm our business. To succeed, we must provide a secure transmission of confidential information over the Internet and protect the confidential customer and patient information we retain, such as credit card numbers and prescription records. A third party who compromises or breaches the physical and electronic security measures we use to protect transaction data and customer records could misappropriate proprietary information, cause interruptions in our operations, damage our computers or those of our customers, or otherwise harm our business. Any of these would harm our reputation and expose us to a risk of loss or litigation and possible liability. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches.

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The implementation of the Medicare Part D prescription drug benefit has and will likely continue to adversely affect drug pricing, which decreases our profitability.

In 2006, the Medicare Part D prescription drug benefit under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("DIMA") became effective. The Medicare Part D prescription drug benefit has negatively affected, and is likely to continue to have a negative impact on, our business. Medicare Part D prescription drug coverage will likely increase the number of senior citizens with prescription drug coverage and reduce the number of customers who pay for their prescription drugs themselves. Customers who choose to obtain coverage under a Medicare Part D plan will likely purchase fewer drugs, or no longer purchase drugs, from us. Because we are not currently processing claims for Medicare Part D, we will be able to serve Medicare D customers only when those customers elect to purchase outside of their Medicare Part D plan and purchase their prescriptions out-of-pocket, such as when the particular medication is not covered by the customer's Medicare plans or when the customer's purchase is not covered because of a deductible, co-payment, or other exclusion. Moreover, the DIMA calls for significant changes to the formulas the Medicare program uses to calculate its payments for prescription drugs, as well as introduction of managed care elements and changes to the administration of the drug benefit program. When fully implemented, these changes could exert downward pressure on prescription drug prices and payments by the government, even as the number of people who use the Medicare benefits to pay for prescription drugs increases. All of these factors could adversely affect our drug prices and dispensing fees, and ultimately could reduce our profit margins.

Government regulation of our business is extensive, and our failure to comply fully with regulations could result in civil and criminal penalties for us.

Our business is subject to extensive federal, state and local regulations. For example:

- entities engaging in the practice of pharmacy are subject to numerous federal and state regulatory requirements, including those relating to pharmacy licensing and registration, the dispensing of prescription drugs, pharmacy record keeping and reporting, and the confidentiality, security, storage, and release of patient records; and

- the sale, advertisement, and promotion of, among other things, prescription, OTC and homeopathic medications, dietary supplements, medical devices, cosmetics, foods, and other consumer products that we sell are subject to regulation by the FDA, the FTC, the Consumer Product Safety Commission, and state regulatory authorities, as the case may be.

As we expand our product offerings and more non-pharmaceutical products become subject to FDA, FTC and other regulation, more of our products will likely be subject to regulation. In addition, regulatory requirements to which our business is subject may expand over time, and some of these requirements may have a disproportionately negative effect on Internet pharmacies. For example, the federal government and a majority of states now regulate the retail sale of OTC products containing pseudoephedrine that might be used as precursors in the manufacture of illegal drugs. As a result, we are currently unable to sell these products to customers residing in states that require retailers to obtain a physical form of identification or maintain a signature log. Some members of Congress have proposed additional regulation of Internet pharmacies in an effort to combat the illegal sale of prescription drugs over the Internet, and state legislatures could add or amend legislation related to the regulation of nonresident pharmacies. In addition to regulating the claims made for specific types of products, the FDA and the FTC may attempt to regulate the format and content of websites that offer products to consumers. The laws and regulations applicable to our business often require subjective interpretation, and we cannot be certain that our efforts to comply with these regulations will be deemed sufficient by the appropriate regulatory agencies. Violations of any regulations could result in various civil and criminal penalties, including suspension or revocation of our licenses or registrations, seizure of our inventory, or monetary fines, any of which could harm our business, financial condition, or operating results. Compliance with new laws or regulations could increase our expenses or lead to delays as we adjust our website and operations.

Increasing concern about privacy, spam, and the use and security of customer information could restrict our marketing efforts and harm our business.

Internet retailers are also subject to increasing regulation and scrutiny relating to privacy, spam, and the use and security of personal user information. These regulations, along with increased governmental or private enforcement (for example, by Internet service providers), may increase the cost of growing our business. Current and proposed regulations and enforcement efforts may restrict our ability to collect and use demographic and personal information from users and send promotional e-mails, which could be costly or harm our marketing efforts. For example, if one or more Internet service providers were to block our promotional e-mails to customers, our ability to generate orders and revenue could be harmed. Further, any violation of privacy, anti-spam, or data protection laws or regulations may subject us to fines, penalties, and damages and may otherwise have a material adverse effect on our business, results of operations, and financial condition.

If people or property are harmed by the products we sell, product liability claims could damage our business and reputation.

Some of the products we sell may expose us to product liability claims relating to personal injury, death, or property damage caused by these products and may require us to take actions such as product recalls. Any such product liability claim or product recall may result in adverse publicity regarding us and the products we sell, which may harm our reputation. If we are found liable under product liability claims, we could be required to pay substantial monetary damages. Further, even if we successfully defend ourselves against this type of claim, we could be forced to spend a substantial amount of money in litigation expenses, our management could be required to spend valuable time in the defense against these claims, and our reputation could suffer, any of which could harm our business. Our current vendors do not, and future vendors may not, indemnify us against product liability. Further, our liability insurance may not be adequate to protect us from all liability that may be imposed as a result of these claims, and we cannot be certain that insurance will continue to be available to us on economically reasonable terms, or at all. Any imposition of product liability that is not covered by vendor indemnification or our insurance could harm our business, financial condition, and operating results. We do not have vendor indemnification clauses with our current vendors.

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If we are required to collect sales and use taxes on the products we sell in additional jurisdictions, we may be subject to liability for past sales and our future sales may decrease.

In accordance with current industry practice, historically we have not collected sales and use taxes or other taxes with respect to shipments of goods into states other than Kentucky and Nevada. The operation of our distribution center, the operations of any future distribution centers and other aspects of our evolving business, however, may result in additional sales and use tax collection obligations. In addition, one or more other states may successfully assert that we should collect sales and use or other taxes on the sale of our products in that state. One or more states or the federal government may seek, either through unilateral action or through federal legislation, to impose sales or other tax collection obligations on out-of-jurisdiction companies that engage in electronic commerce as we do. Moreover, one or more states could begin to impose sales taxes on sales of prescription products, which are not generally taxed at this time, or impose sales taxes on sales of certain prescription products. The imposition of additional tax obligations on our business by state and local governments could create significant administrative burdens for us, decrease our future sales, and harm our cash flow and operating results.

We are dependent on key personnel and their loss would adversely affect our ability to conduct our business.

In order to execute our business plan, we must be able to keep our existing management and professionals and, when necessary, hire additional personnel who have the expertise we need. We cannot assure you that we will be able to this, and our failure to do so could have a material adverse effect on our business, results of operations and financial condition. We are particularly dependent on the services of Lalit Dhadphale, our Chief Executive Officer and President. We do not carry key-man life insurance for our benefit on Mr. Dhadphale or on any other employee of our company.

We are a public company and, as such, are subject to the reporting requirements of federal securities laws, which are expensive and may divert resources from other projects, thus impairing our ability to grow.

We are a public reporting company and, accordingly, are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and other U.S. federal securities laws, including compliance with the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). Compliance with these obligations requires significant time and resources from our management and increases our legal, insurance and financial compliance costs. It is also time consuming and costly for us to develop and implement the internal controls and reporting procedures required by Section 404 of the Sarbanes- Oxley Act. If we are unable to comply with the requirements of the Sarbanes-Oxley Act, it may preclude us from keeping our filings with the SEC current. Non-current reporting companies may be subject to various restrictions, such as the inability to be quoted on the OTCQB Market Tier.

Risks Related to Our Common Stock

Our Common Stock may be considered a “penny stock” and may be difficult to sell.

The SEC has adopted regulations which generally define “penny stock” to be an equity security that has a market or exercise price of less than $5.00 per share, subject to specific exemptions. The market price of our Common Stock has been below $5.00 per share and therefore we are designated as a “penny stock” according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules restrict the ability of brokers or dealers to sell our Common Stock and may affect the ability of our stockholders to sell their shares. In addition, since our Common Stock is now quoted on the OTCQB Market tier, our stockholders may find it difficult to find few buyers to purchase the stock or a lack of market makers to support the stock price.

Our stock price may continue to be volatile and may decrease in response to various factors, which could adversely affect our business and cause our stockholders to suffer significant losses.

Our Common Stock is illiquid, and its price has been and may continue to be volatile in the indefinite future. During 2014, the high and low sale prices of our Common Stock were $0.76 and $0.05, respectively. On December 31, 2014, the closing price of our Common Stock was $0.09. The price of our stock could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

changes in our industry;

government regulations;

competitive pricing pressures;

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- our ability to obtain working capital;
- additions or departures of key personnel;
- limited “public float” in the hands of a small number of persons, whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our Common Stock;
- sales of our Common Stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Common Stock.

Our stock trading volume may not provide adequate liquidity for investors, and the price of our Common Stock may fluctuate significantly. This may make it difficult for you to resell our Common Stock when you want or at prices you find attractive.

Shares of our Common Stock are traded on the over-the-counter markets, including the OTCQB market tier of the OTC Markets Group Inc. The average daily trading volume in our Common Stock is generally less than that of larger companies whose stocks are listed on an exchange and can often be sporadic and very limited. Given the limited and sporadic trading of our Common Stock, holders of our Common Stock may be unable to make significant sales of the Common Stock in a brief period of time. In addition, our Common Stock may be subject to significant price swings even when a relatively small number of shares are traded. We cannot predict the volume or prices at which our Common Stock will trade in the future.

Our officers, directors and 5% or greater stockholders have significant voting power.

Our executive officers, directors, and our 5% or greater stockholders beneficially own approximately 51.8% of our outstanding voting securities as of December 31, 2014. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions.

We could issue “blank check” preferred stock without stockholder approval with the effect of diluting then current stockholder interests and impairing their voting rights and provisions in our charter documents could discourage a takeover that stockholders may consider favorable.

Our Certificate of Incorporation authorizes the issuance of up to 1,000,000 shares of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. To date, we have designated 200,000 of these shares as Series A Convertible Preferred Stock, 625,000 of these shares as Series B Convertible Preferred Stock, and 10,000 of these shares as Series C Preferred Stock, leaving 165,000 shares of "blank check" preferred stock available for designation and issuance. Our board of directors is empowered, without stockholder approval, to issue a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interest of, or impair the voting power of, our Common Stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. For example, it would be possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company.

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We may engage in additional financing that could lead to dilution of existing stockholders.

To date, we have financed our activities through the proceeds from sales of our equity securities in private placement financings and the proceeds from the issuance of our promissory notes in private financings. Any future financings by us may result in substantial dilution of the holdings of existing stockholders and could have a negative impact on the market price of our Common Stock. Furthermore, we cannot assure you that such future financings will be possible.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our Common Stock in the foreseeable future.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate headquarters, which also houses our pharmacy and customer service operations as well as our inventory, is located at 7107 Industrial Road, Florence, Kentucky, 41042. We occupy 62,600 square feet of office, storage and warehouse space under a lease with a monthly rental rate range from $9,224 to $11,975; however, the Company recognizes rent on a straight line basis in the amount of $9,821. The lease expires January 1, 2017.

The Company leased an apartment at a monthly lease rate of $2,850. The lease expired on March 31, 2013.

On June 7, 2013 we signed a three year lease for $1,000 per month at a 1,200 square foot location in Lawrenceburg, Indiana which will serve as an office, backup facility and closed door pharmacy. On July 8, 2013, the parties agreed to extend the lease for two additional years, such that the new termination date is now June 7, 2018. On January 14, 2014, the Company vacated the Lawrenceburg facility. The Company is currently in discussions with the landlord regarding termination of the lease related to the building. The present value of the remaining lease payments of $46,604 was expensed during the year ended December 31, 2014, and is reflected as a component of accrued expenses and other liabilities on the consolidated balance sheet as of December 31, 2014.

Item 3. Legal Proceedings.

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 such 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. See Note 10 of the Consolidated Financial Statements.

On February 9, 2012, two of our former stockholders, Rock Castle Holdings, LLC and Jason Smith (collectively “Plaintiffs”), filed suit against us in the Hamilton County, Ohio Court of Common Pleas, alleging that we had breached the terms of certain incentive options we granted to the Plaintiffs in connection with our now-terminated oral consulting arrangements with the Plaintiffs, by among other things, refusing Plaintiffs' purported exercise of options to purchase 233,332 shares of our Common Stock at an exercise price of $2.00 per share in December 2011. Plaintiffs requested that, among other things, the court require us to permit the exercise of the 233,332 options. Plaintiffs provided an expert report indicating damages of $2.086 million. On December 1, 2014, the Company executed a settlement agreement with the Plaintiff for $150,000 to be paid in unequal monthly installments through June 10, 2015.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our shares of Common Stock are currently quoted on the OTCQB Market Tier under the symbol HEWA.

The following table sets forth the high ask and low bid prices for our Common Stock for the periods indicated as reported by the OTC Pink Limited Market Tier until about November 14, 2014 and by the OTCQB Market Tier thereafter.

	Year ended December 31, 2014		Year ended December 31, 2013	
	High	Low	High	Low
First	$0.76	$0.20	$4.00	$1.01
Second	$0.26	$0.10	$1.88	$0.69
Third	$0.28	$0.07	$1.66	$0.51
Fourth	$0.22	$0.05	$0.95	$0.13

On December 31, 2014, the closing price of our Common Stock, as reported by the OTCQB Market Tier, was $0.09 per share.

These bid and ask prices represent prices quoted by broker-dealers on the OTC Market. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

As of December 31, 2014, there were 37,570,383 shares of our Common Stock outstanding.

Holders

As of March 15, 2015, there were approximately 211 holders of record of our Common Stock. However, we believe that there are significantly more beneficial holders of our Common Stock as many beneficial holders hold their stock in "street name."

Dividends

We have never declared cash dividends on our Common Stock, nor do we anticipate paying any dividends on our Common Stock in the future.

Recent Sales of Unregistered Securities

Not applicable.

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Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion of results of operations and financial condition is based upon, and should be read in conjunction with, our consolidated financial statements and accompanying notes thereto, included elsewhere in this Annual Report. This discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward looking statements. Reference is made to "Information Regarding Forward-Looking Statements" and Item 1A "Risk Factors" for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

Overview

HealthWarehouse.com, Inc. ("HEWA" or the "Company") is America's Trusted Online Pharmacy, licensed in 50 states to focus on the out-of-pocket prescription drug market, a market which is expected to grow to $80 billion in 2015. HealthWarehouse.com is currently 1 of less than 40 Verified Internet Pharmacy Practice Websites ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP") and is the only VIPPS accredited pharmacy licensed in all 50 states and the District of Columbia that processes out-of-pocket prescriptions online. The Company markets a complete range of generic, brand name, and pet prescription medications as well as over-the-counter ("OTC") medications and products.

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

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

Our objectives are to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We are becoming known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medications. We intend to continue to expand our product line as our business grows.

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Results of Operations

For The Year Ended December 31, 2014 Compared to The Year Ended December 31, 2013

	For year ended Ended December 31, 2014	% of Revenue	For year ended Ended December 31, 2013	% of Revenue
Net sales	$ 6,129,660	100.0 %	$ 10,233,112	100.0 %
Cost of sales	2,492,382	40.7 %	5,111,737	50.0 %
Gross profit	3,637,278	59.3 %	5,121,375	50.0 %
Selling, general & administrative	5,370,727	87.6 %	7,554,954	73.7 %
Loss from operations	(1,733,449)	(28.3 %)	(2,433,579)	(23.8 %)
Other income	281,911	4.6 %	(2,792,900)	(27.3 %)
Interest expense	(331,741)	(5.4 %)	(263,413)	(2.6 %)
Net loss	$ (1,783,279)	(29.1 %)	$ (5,489,892)	(53.6 %)

Net Sales

For year ended December 31, 2014	% Change	$ Change	For year ended December 31, 2013
$ 6,129,660	(40.1 %)	$ (4,103,452)	$ 10,233,112

Net sales for the year ended December 31, 2014 declined to $6,129,660 from $10,233,112, a decrease of $4,103,452, or 40.1% due to reduction in business-to-business sales and cash flow constraints. Cash flow constraints resulted in the inability to invest in advertising to grow the consumer prescription and over-the-counter business during the first nine months of the year and to have adequate inventory levels to support the sales volumes, particularly the over-the-counter business. This prompted negative customer reviews and cancelled orders that contributed to the decline in sales. With the liquidity provided by proceeds from the equity raise in August and October 2014, we were able to source and inventory products to fill incoming orders and improved order fill rate to less than three days from the receipt of the order. We also were able to initiate a new advertising campaign to drive new and repeat customers to our website. In addition, we continue to dedicate customer support personnel to proactively call customers after Rx orders are received to obtain the required copies of the prescriptions, in order to process the order and improve the Company’s order conversion rate. Through these efforts, we experienced a 25% increase in new customers during the fourth quarter of the year compared to the prior quarter while maintaining the number of repeat customers.

Cost of Sales and Gross Margin

For year ended December 31, 2014	% Change	$ Change	For year ended December 31, 2013

Cost of sales	$	2,492,382		(51.2	%)	(2,619,355)	$	5,111,737	
Gross margin $	$	3,637,278		(29.0	%)	(1,484,097)	$	5,121,375	
Gross margin %		59.3	%	9.3	%			50.0	%

Cost of sales were $2,492,382 for the year ended December 31, 2014 as compared to $5,111,737 for the year ended December 31, 2013, a decrease of $2,619,355 or 51.2%, primarily as a result of a reduction in order volume and improvement in our cost associated with improved vendor relations. Gross margin percentage increased year-over-year from 50.0% for the year ended December 31, 2013 to 59.3% for the year ended December 31, 2014, primarily due to the improved cost discussed above, the elimination of unprofitable business relations and reduction of business-to-business sales. Management will continue to focus its advertising and operational efforts on promoting and offering its higher margin product lines to consumers.

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Selling, General and Administrative Expenses

	For year ended December 31, 2014	% Change	$ Change	For year ended December 31, 2013
S,G&A	$ 5,370,727	(28.9 %)	$ (2,184,227)	$ 7,554,954
% of sales	87.6 %			73.8 %

Selling, general and administrative expenses totaled $5,370,727 for the year ended December 31, 2014 compared to $7,554,954 for the year ended December 31, 2013, a decrease of $2,184,227, or 28.9%. The year ended December 31, 2014 expense decreases included (a) a decrease in legal expense of $789,757 (primarily due to lower proxy and litigation costs); (b) a reduction in salary and contract labor expense of $642,104 (primarily due to a reduction in headcount, salaries and reliance on outside operations consultants); (c) a decrease in expense related to warrants issued of $487,200; (d) a decrease in freight expense of $263,446 (primarily due to the reduction in the order volume); and (e) a decrease in employee benefit expense of $176,820 (primarily due to lower census and higher employee contributions). The decreases were partially offset by (a) an increase in stock based compensation expense of $282,878; (b) and increase in expense of $174,452 (primarily due to the settlement of outstanding litigation) and (c) and increase in advertising and marketing expense of $88,571 (primarily related to advertising campaign initiated during the fourth quarter of 2014). We expect that our selling, general and administrative expenses, specifically legal and professional fees, will decrease over time as our outstanding litigation is resolved. While we continue to focus on controlling costs and improving efficiencies of our personnel, we plan to expand our advertising and marketing initiatives that started in 2014 to support future sales growth.

Gain or Loss on Extinguishment

During the year ended December 31, 2014, we recorded a $281,911 extinguishment gain which represents adjustments made to accounts payable balances for various reasons including the repayment at discounted amounts and settlement through insurance coverage. During the year ended December 31, 2013, we recorded a $2,792,900 extinguishment loss which represents the incremental fair value of the equity securities issued as compared to the carrying value of the liabilities that were exchanged.

Other Income and Expense

Interest expense increased from $263,413 in the year ended December 31, 2013 to $331,741 in the year ended December 31, 2014, an increase of $68,328, or 26%, primarily due to an increase in amortization of debt discounts and higher notes payable balances during the year ended December 31, 2014.

Adjusted EBITDAS

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

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

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

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

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

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

	For year ended December 31,	
	2014	2013
	(unaudited)	
Net loss	$ (1,783,279)	$ (5,489,892)
Non-GAAP adjustments:		
Gain on extinguishment of payables	(281,911)	-
Loss on extinguishment of debt	-	2,792,900
Interest expense	331,741	263,413
Depreciation and amortization	172,167	158,029
Warrants issued to 2012 investors	-	487,200
Imputed value of contributed services	116,666	350,000
Stock-based compensation	841,164	558,286
Change in fair value of collateral securing employee advances	6,858	9,857
Adjusted EBITDAS	$ (596,594)	$ (870,207)

Off-Balance Sheet Arrangements

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

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the year ended December 31, 2014 and 2013. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Liquidity and Capital Resources

Since inception, we have financed operations primarily through debt and equity financings and advances from stockholders. As of December 31, 2014 we had a working capital deficiency of $4,237,165 and an accumulated deficit of $30,212,865. During the years ended December 31, 2014 and 2013, we incurred net losses of $1,783,279 and $5,489,892 and used cash in operating activities of $875,769 and $1,024,781, respectively. These conditions raise substantial doubt about our ability to continue as a going concern.

Subsequent to December 31, 2014, the Company continues to incur net losses and use cash in operating activities. The funds from the Company's recent private placement offering completed during 2014 have improved the Company's current cash position and working capital constraints; however, the funds are not sufficient to satisfy its current obligations.

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On February 13, 2013, we received a Notice of Redemption related to our Series C Redeemable Preferred Stock aggregating $1,000,000. As a result of receiving the Notice of Redemption, we must now apply all of our assets to redemption of the Series C Preferred Stock and to no other corporate purpose, except to the extent prohibited by Delaware law governing distributions to stockholders (we are not permitted to utilize toward the redemption those assets required to pay our debts as they come due and those assets required to continue as a going concern).

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

Accordingly, the accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate our continuation 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.

As of December 31, 2014 and 2013, the Company had cash on hand of $506,019 and $67,744, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the year ended December 31, 2014, cash flows included net cash used in operating activities of $875,769. This amount included a decrease in operating cash related to a net loss of $1,783,279, partially offset by aggregate non-cash adjustments of $1,102,575, plus aggregate cash used by changes in operating assets and liabilities of $195,065 (primarily a result of a reduction in accounts payable). For the year ended December 31, 2013, cash flows included net cash used in operating activities of $1,024,781. This amount included a decrease in operating cash related to a net loss of $5,489,892, partially offset by aggregate non-cash adjustments of $4,578,472, plus aggregate cash used by changes in operating assets and liabilities of $113,363 (primarily a result of accrued expenses).

For the year ended December 31, 2014, net cash used in investing activities was $312,668 due to a $195,088 reserve required by the credit card processor (restricted cash) and capitalized web development costs of $114,616 and capital expenditures of $2,964. For the year ended December 31, 2013, net cash provided by investing activities was $751,579 due to releasing $850,002 of cash provided by investors from escrow (restricted cash) partially offset by $98,423 of capitalized web development costs.

For the year ended December 31, 2014, net cash provided by financing activities was $1,626,712. Cash was provided by $1,537,755 of proceeds from a private placement offering and $150,000 of proceeds from the issuance of notes payable, partially offset by repayments of notes payable of $5,000 and payments on equipment leases of $56,043. For the year ended December 31, 2013, net cash provided by financing activities was $340,946. Cash was provided by $2,651,973 of proceeds from a private placement offering (which excludes $850,002 of cash received during 2012 but closed on during the year ended December 31, 2013) and $756,000 of proceeds from the issuance of notes payable, partially offset by repayments of notes payable of $2,017,905, repayments of convertible notes payable of $1,000,000 and payments on equipment leases of $49,122.

Critical Accounting Policies and Estimates

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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. Our significant estimates include reserves related to accounts receivable and inventory, the recoverability and useful lives of long-lived assets, the valuation allowance related to deferred tax assets, the valuation of equity instruments and debt discounts, and the valuation of acquired assets.

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Inventory

Inventories consist of finished goods and are valued at the lower of cost or market with cost determined using the first-in, first-out method and with market defined as the lower of replacement cost or realizable value. As part of the valuation process, inventory reserves are established to state excess and slow-moving inventory at their estimated net realizable value.

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.

Net Loss Per Share of Common Stock

Basic net loss per share is computed by dividing net loss attributable to Common Stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other instruments to issue Common Stock were exercised or converted into Common Stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share if their inclusion would be anti-dilutive.

Stock-Based Compensation

Stock-based compensation expense for all stock-based payment awards is based on the estimated fair value of the award. For employees and directors, the award is measured on the grant date. For non-employees, the award is measured on the grant date and is then remeasured at each vesting date and financial reporting date. We recognize 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.

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entitiy's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Adoption of this pronouncement is not expected to have a material impact on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined the effect of the adoption of this standard and its impact on the Company's consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and its impact on the Company's consolidated financial position and results of operations.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The financial statements required hereby are located on pages 43 through 66.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls And Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, (Chief Executive Officer and Principal Financial Officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief Executive Officer and Principal Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined In Exchange Act Rule 13a-15(f). The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. In addition, because of changes in conditions, the effectiveness of internal control may vary over time.

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As of December 31, 2014, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) (COSO) and identified material weaknesses. Consequently, they concluded our internal controls were not effective. A "material weakness" is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statement will not be presented or detected by our employees.

The Company has previously reported certain material weaknesses listed below:

Develop appropriate accounting policies and procedures, including the review and supervision, for all necessary areas and effectively communicate our existing policies to our employees.

Retain adequately trained technical accounting and external reporting personnel to support standalone external financial reporting under OTCQB or SEC requirements.

Effective controls over disbursements to ensure that disbursements are properly authorized and recorded.

Maintain a fully integrated financial consolidation and reporting system throughout the year to reduce or eliminate extensive manual analysis, reconciliation and adjustments and produce timely financial statements for external reporting purpose.

Segregate employees' duties in connection with the review and approval of certain transactions, reconciliations and other processes in day-to-day operations.

Policies and procedures to ensure that senior management and the Board of Directors would receive timely information about related party transactions.

During the year ended December 31, 2014, management has implemented policies, procedures and controls to address the above weaknesses. Management believes that the controls implemented during the period are sufficient to address the above weaknesses, however, they have concluded that such controls have not been in place for a sufficient period of time in order to conclude that the identified material weaknesses described above have been fully remediated.

As of December 31, 2014, the material weakness that remains is the lack of accounting personnel with sufficient experience with United States generally accepted accounting principles to address the accounting for complex transactions due to the lack of a full-time Chief Financial Officer. Therefore, based on this evaluation, management has concluded that as of December 31, 2014, our disclosure controls were not effective. We believe that to fully remediate this weakness, the Company will need to retain a full time Chief Financial Officer. The directors plan to pursue the employment of a permanent Chief Financial Officer as the Company's operations and liquidity position improve during fiscal year 2015.

Additional measures may be necessary, and the measures we expect to take to improve our internal controls may not be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that such material weakness or other material weaknesses would not result in a material misstatement of our annual or interim financial statements. In addition, other material weaknesses or significant deficiencies may be identified in the future. If we are unable to correct deficiencies in internal controls in a timely manner, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could negatively affect the market price and trading liquidity of our Common Stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

The Company is a non-accelerated filer and is not subject to Section 404(b) of the Sarbanes Oxley Act. Accordingly, this Annual Report does not contain an attestation report of our independent registered public accounting firm regarding internal control over financial reporting, since the rules for smaller reporting companies provide for this exemption.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting, except as disclosed above.

Item 9B. Oher Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Executive Officers and Directors

The names, ages and positions of our executive officers and directors as of March 1, 2015 are as follows:

Name	Age	Position
Lalit Dhadphale	43	President, Chief Executive Officer and Director
Youssef Bennani	48	Director
Joseph Savarino	45	Director
Ambassador Ned L. Siegel	63	Director

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers and directors are as follows:

Lalit Dhadphale co-founded HealthWarehouse.com in August 2007 and launched the company's prescription drug business in 2008. He has been President and CEO of the Company since its inception and has served as Chairman of the Board of Directors since May 2009. Earlier in his career, Lalit co-founded Zengine, Inc. serving as Vice President of Product Development, Chief International Officer and later as Chief Operating Officer of Zengine, Inc. from founding in 1999 through its sale in 2002. Under his day-to-day leadership, Zengine grew from start-up to $30+ million in annualized sales, achieving profitability in its second quarter as a public company in the first quarter of 2001. Prior to co-founding Zengine, Mr. Dhadphale was a co-founder of Excite Japan, where he was involved with product development, internationalization and localization of web sites and Internet products. He produced the launch of both Excite Japan and Netscape Netcenter Japan. Prior thereto, Mr. Dhadphale was International Business Development Manager for CNET, securing relationships throughout Asia and the Pacific Rim. Mr. Dhadphale received his BA degree from the University of Michigan, Ann Arbor in Japanese Language & Literature and Asian Studies.

Mr. Dhadphale brings his executive experience in product development, web site design and internet products.

Youssef Bennani became a member of our Board of Directors on November 11, 2009. Through January 30, 2012, Mr. Bennani was a Senior Managing Director in Kaufman Bros., L.P.'s Investment Banking department which he joined in 1995. His responsibilities ranged from public and private financing transactions to general financial advisory for mergers and acquisition, restructuring, acquisition financing and recapitalization. Prior to joining Kaufman Bros., L.P., Mr. Bennani was an investment banker at Barington Capital, L.P., where his primary industry focus was technology. Mr. Bennani received his MBA in international finance from New York University's Stern School of Business. He also received his Masters in computer science as well as a BS in mathematics and physics from the University of Pierre and Marie Curie in Paris.

In addition to the international and investment banking experiences, Mr. Bennani brings a depth of knowledge of finance that permits him to qualify as the "financial expert" on the Board.

Joseph Savarino became a member of our Board on December 22, 2010. Since June 2010, Mr. Savarino has been a co-founder and Director of Carpeturn.com, Inc. which provides flooring materials and services to the multi-family housing industry, where customers have online and mobile access to schedule installations, manage budgets and track apartment histories. Mr. Savarino was engaged in select Internet and e-commerce consulting projects from 2002 through June 2010, and has prior experience in management, sales, business development and market research. Mr. Savarino was President and Chief Executive Officer of Zengine, Inc., from 1998 until its sale in 2002. Zengine was a public company that provided sell-side e-commerce software and services to customers in the United States and Japan.

As a co-founder and Director of Zengine, Inc. and Carpeturn.com, Inc., Mr. Savarino provides the Board with entrepreneurial background and e-commerce experience.

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Ambassador Ned L. Siegel became a member of our Board of Directors on June 14, 2013. Ambassador Siegel has been the President of the Siegel Group, Inc. since September 1997. Ambassador Siegel has been a Managing Member of the Siegel Consulting Group, LLC since November 2009. He was the Ambassador of the United States of America to the Commonwealth of The Bahamas from October 26, 2007 to January 2009. He also served as an Ambassador of the US to the Bahamas, representative of the US in the United Nations, where he served in New York from September 2006 to January 2007, under Ambassador John R. Bolton as a Senior Advisor to the U.S. Mission to the 61st Session of the United Nations General Assembly. During his fifteen- month tenure as Ambassador, he served as Chief of Mission responsible for all operations of Embassy Nassau. Ambassador Siegel served as the Chairman of The Siegel Group Inc. since January 2009. He served as Vice Chairman of Alternative Fuels Americas, Inc. since January 18, 2011 and served as its Director. He has been a Director of PositiveID Corporation since February 2, 2011. He served as a member of the OPIC Board of Directors until September 2007. From January 2003 to October 2007, Ambassador Siegel was a Member of the Board of Directors of the Overseas Private Investment Corporation. From 2003 to 2007, he served as a Member of the Board of Directors of the Caswell-Massey Company, Ltd. In 2003, he was honored by President George W. Bush. In May 2009, he was presented with the United States Coast Guard Meritorious Public Service Award. Ambassador Siegel received Bachelor of Arts from University of Connecticut in 1973 and a Juris Doctorate from Dickinson School of Law in 1976.

Ambassador Siegel brings to the board extensive experience and contacts with government agencies.

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are appointed annually by the board of directors and serve at the discretion of the board.

Currently, the Company’s Chief Executive Officer also holds the position of Chairman of the Board of Directors and Principal Financial Officer. In the future, however, the Board may reconsider whether its Chief Executive Officer should also serve as Board Chairman.

Committees of the Board of Directors

Audit Committee

Our Audit Committee consists of Youssef Bennani (Chair), Joe Savarino and Ambassador Siegel. The functions of the Audit Committee include the retention of our independent registered public accounting firm, reviewing and approving the planned scope, proposed fee arrangement and results of the Company’s annual audit, reviewing the adequacy of the Company’s accounting and financial controls and reviewing the independence of the Company’s independent registered public accounting firm. Our Board has determined that the member of the Audit Committee meets the independence requirements of the SEC. Our Board has also determined that Youssef Bennani qualifies as an “audit committee financial expert,” as defined in SEC rules. Mr. Bennani, on behalf of the Audit Committee, meets with the Company’s independent auditors on a formal basis at least quarterly, in addition to a number of informal meetings throughout the year.

Compensation Committee

Our Compensation Committee of the Board of Directors consists of Joe Savarino (Chair), Youssef Bennani and Ambassador Siegel. The function of the Compensation Committee is to recommend to the full Board of Directors the compensation to be offered to our executive officers and the compensation to be offered to our directors. The Compensation Committee also administers our 2009 Incentive Compensation Plan, and recommends and approves grants of stock options and restricted stock under that plan.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our employees, including our principal executive officer, principal financial officer, and principal accounting officer or controller. A copy of the Company's Code of Ethics will be provided free of charge, upon written request to 7107 Industrial Road, Florence, KY, 41042, and our telephone number is (513) 618-0913.

Indebtedness of Directors and Executive Officers

None of our executive officers or directors, or their respective associates or affiliates, is indebted to us.

Legal Proceedings

See Item 3 for disclosure of material proceedings to which any of directors, executive officers, affiliates or stockholders is a party adverse to us.

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Family Relationships

There are no family relationships among our executive officers and directors.

Compliance with Section 16(a) of the Exchange Act

All filings made in compliance.

Stockholder Recommendations of Board Nominees

In nominating candidates for election as a director, the Board will consider candidates recommended by stockholders who satisfy the notice, information and consent provisions set forth in our Amended and Restated Bylaws. Stockholders who wish to recommend a candidate may do so by writing to the Board of Directors in care of the Corporate Secretary, at HealthWarehouse.com, 7107 Industrial Road, Florence, Kentucky 41042. The Board will use will use the same evaluation process for director nominees recommended by stockholders as it uses for other director nominees. A copy of our Amended and Restated Bylaws may be obtained by any stockholder upon request to our Corporate Secretary or through the SEC's website at www.sec.gov.

Item 11. Executive Compensation.

The following table sets forth summary compensation information for 2014 and 2013 for our Chief Executive Officer during the years shown. No other executive officer had total compensation of $100,000 or more in 2014. Except as provided below, none of our named executive officers received any other compensation required to be disclosed by law or in excess of 10% of their total annual compensation.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($) (1)	All Other Compensation ($)	Total ($)
Lalit Dhadphale (2)	2014	100,000	0	35,825	0	135,825
President, Chief Executive and Financial Officer	2013	0	0	0	0	0

(1) The amounts in the "Option Awards" column reflect the dollar aggregate grant date fair value computed in accordance with ASC Topic 718. The assumptions we used to calculate these amounts are discussed in the notes to our consolidated financial statements included in this report on Form 10-K.

(2) Mr. Dhadphale ceased receiving a salary beginning January 1, 2013 in order to conserve the Company's resources to support its development activities. The Company recognized salary expense of $116,666 and $350,000 during the years ended December 31, 2014 and 2013, respectively, which was treated as contributed capital. Effective May 1, 2014, Mr. Dhadphale began to receive an annual salary of $150,000.

Narrative Disclosure to the Summary Compensation Table

The goal of our executive compensation program is to attract and retain qualified individuals and motivate those individuals to perform at the highest of professional levels and to contribute to our growth and success. Due to our limited resources, we currently have only one named executive officer: Lalit Dhadphale, our President, Chief Executive Officer and Chairman of the Board of Directors. He has agreed to below market compensation and elected not to receive a salary beginning January 1, 2013 through April 30, 2014 in order to conserve the Company's resources to support its development activities. Mr. Dhadphale began to receive a salary effective May 1, 2014.

Consistent with the size and nature of our Company, our executive compensation program is simple, consisting of a base salary and long-term equity awards in the form of stock options.

Base Salary: The Compensation Committee or the Board reviews the base salaries of our named executive officers at least annually. The annual base salary of our named executive officer is reflected in the Summary Compensation Table. Due to our resource restrictions, our existing executive officer's base salary is below market and he elected not to receive his base salary from January 1, 2013 through April 30, 2014.

Long-Term Incentive Awards: The Board has a policy to issue long-term equity awards in the form of stock options. Our long-term equity awards align the interests of our named executive officers with those of our stockholders, thereby creating an incentive to build stockholder value and acting as a retention tool.

On August 31, 2011, we awarded Mr. Dhadphale a five year incentive stock option to purchase 250,000 shares of Common Stock at $3.80 per share. These options vest on the date Mr. Dhadphale personally, by means of a pledge of Common Stock, secures a pending economic development loan to the Company from the Commonwealth of Kentucky. As of the filing date of this report, the Company does not intend to pursue the aforementioned financing. Accordingly, it is not probable that this option will vest and no compensation expense has been recorded.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes equity awards outstanding at December 31, 2014, for each of the executive officers named in the Summary Compensation Table above:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Lalit Dhadphale	250,000	--	3.03	10/14/15
Chief Executive and Financial Officer	--	250,000(1)	3.80	8/31/16
and President	--	250,000(2)	0.18	8/27/2019

(1) Options vest on the effective date Mr. Dhadphale personally provides certain credit support for a pending economic development loan to the Company from the Commonwealth of Kentucky.

(2) Options vest on the one year anniversary of the grant date of August 27, 2014.

Employment Agreements

None of our employees are subject to employment agreements with us. We intend to enter into an employment agreement with Lalit Dhadphale, our President and Chief Executive Officer, when our financial condition improves.

Severance and Change in Control Arrangements

We do not have any agreements or arrangements providing for payments to any of our officers and directors in the event of a change in control or termination.

Director Compensation

We compensate non-management directors primarily through stock option or restricted stock grants under our stock option plans. Based on guidelines stipulated in a study completed by Compensation Strategies, Inc. in October 2013 which analyzed and determined standards for director compensation of companies similar in size, we grant non-management directors options to purchase 100,000 shares upon their initial election to the board, and options to purchase 135,000 shares on an annual basis for serving on the board. Directors are expected to timely and fully participate in all regular and special board meetings, and all meetings of committees on which they may serve.

The table below summarizes the compensation we paid to non-management directors for the fiscal year ended December 31, 2014:

2014 DIRECTOR COMPENSATION

Name	Option Awards ($) (3)	All Other Compensation ($)	Total ($)
Joseph Savarino (1)	49,282	-	49,282
Youssef Bennani (1)	49,282	-	49,282
Ned Siegel (1,2)	167,908	-	167,908

(1) In connection with the directors annual service on our Board, (i) on August 27, 2014 we granted options to each director to purchase 115,000 shares of our Common Stock at an exercise price of $.16 per share, and with a term of ten years. The options vest 100% on November 30, 2014 and (ii) on October 23, 2014 we granted options to purchase 200,000 shares of our Common Stock at an exercise price of $.12 per share, and with a term of ten years. The options immediately vested on the grant date.

(2) As recognition for Mr. Siegel's efforts with the equity raise, the Board awarded him options to purchase 742,857 shares of Common Stock at an exercise price of $0.12 per share, with a term of ten years. The options immediately vested on the grant date.

(3) The amounts in the "Option Awards" column reflect the dollar aggregate grant date fair value computed in accordance with ASC Topic 718.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The 2009 Incentive Compensation Plan (the "2009 Plan") was approved on May 15, 2009 and June 4, 2009, and the increase in the total number of shares of Common Stock issuable pursuant to the 2009 Plan to 2,881,425 shares was approved on October 4, 2010 and September 20, 2011, by the Board of Directors and the Stockholders, respectively.

The 2009 Plan imposes individual limitations on the amount of certain awards. Under these limitations, during any fiscal year of our 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 $2,000,000, and the maximum amount that may be paid out as performance units in any performance period greater than 12 months is $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, 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 Board, 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. As of December 31, 2013, stock options to purchase up to 2,543,150 shares of Common Stock have been awarded under the 2009 Plan, with exercise prices ranging from $0.30 to $6.99 per share, of which 1,235,650 are exercisable. All of these options have a five or ten year term.

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 Equity 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 board of directors or committee of the Company's board of directors designated to administer the 2014 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.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2014, with respect to the shares of Common Stock that may be issued under our existing equity compensation plan.

Equity Compensation Plan Information

Plan category	Number of shares of Common Stock to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,944,557 (1)	$1.27	4,690,615 (2)
Equity compensation plans not approved by security holders (3)	9,339,044	$0.45	-0-
Total	13,283,601	$0.69	4,690,615

(1) Consists of (i) options to purchase 2,601,700 shares of our Common Stock granted under our 2009 Incentive Compensation Plan (the “2009 Plan”), with exercise prices ranging from $0.16 to $6.99 per share and (ii) options to purchase 1,342,857 shares of our Common Stock granted under our 2014 Equity Incentive Plan (the “2014 Plan”), with exercise prices $0.12 per share.

(2) Remaining shares available as of December 31, 2014 for future issuance including (i) 33,472 under our 2009 Plan (including 181,425 shares that remained available on May 15, 2009 under our 2006 Plan and that are now available for issuance under our 2009 Plan) and (ii) 4,657,143 under our 2014 Plan.

(3) Consists of warrants issued (1) to investors to purchase 7,522,844 shares of our Common Stock with exercise prices ranging from $.25 to $4.95 per share; (2) to consultants to purchase 1,291,200 shares of Common Stock with exercise prices ranging from $0.15 to $4.95 per share; and (3) to lenders to purchase 525,000 shares of our Common Stock with exercise prices of $0.35. All outstanding warrants were issued for an initial term of five years.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the ownership of our Common Stock as of December 31, 2014 by: (a) each current director; (b) each executive officer; (c) all of our current executive officers and directors as a group; and (d) all those known by us to be beneficial owners of more than five percent of our Common Stock.

Name (1)	Number of Shares Beneficially Owned (2)	Percentage of Shares Beneficially Owned (3)
5% or Greater Stockholders:		
Dr. Bruce Bedrick (4)	5,850,000	14.8%
Cormeg Holdings, LTD (5)	4,434,902	11.4%
Wayne Corona (6)	2,770,676	7.4%
Lloyd I. Miller III (7)	2,276,134	6.8%
Osgar Holdings, LTD (8)	2,500,000	6.5%
Karen Singer (9)	2,313,104	5.8%
Janice & Ralph Marra (10)	2,201,844	5.8%
Executive Officers and Directors:		
Lalit Dhadphale (11)	3,413,986	9.0%
Ned L. Siegel (12)	1,423,066	*
Youssef Bennani (13)	630,000	*
Joseph Savarino (14)	495,000	*
All executive officers and directors as a group - (4 persons)	5,962,052	15.7%

* Less than 1.0%

(1) The address of each officer and director is c/o HealthWarehouse.com, Inc., 7107 Industrial Road, Florence, Kentucky 41042.

(2) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the SEC. Unless otherwise indicated, includes shares owned by a spouse, minor children and relatives sharing the same home, as well as the entities owned or controlled by the named person. Also

includes shares if the named person has the right to acquire those shares within 90 days after December 31, 2014, by the exercise of any warrant, stock option, convertible note or other right. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

(3) Applicable percentages are based on 37,570,383 shares of Common Stock outstanding on December 31, 2014, adjusted as required by rules promulgated by the SEC. Does not include 451,879 shares of Series B Preferred Stock outstanding on December 31, 2014, which shares are convertible into 5,146,902 shares of Common Stock, based on a conversion factor of 11.39. The shares of Common Stock and shares underlying convertible preferred stock, and stock options or warrants are deemed outstanding for purposes of computing the percentage of the person holding such convertible preferred stock, convertible notes, and/or stock options or warrants but are not deemed outstanding for the purpose of computing the percentage of any other person.

(4) Consists of (i) 3,900,000 shares and (ii) warrants to purchase 1,950,000 shares owned by Dr. Bedrick. The information in this Note 4 is based in part on information contained in the Schedule 13G filed with the SEC by Dr. Bruce Bedrick on September 18, 2014. Dr. Bedrick's address is 5375 Monterey Circle #32, Delray Beach, FL 33484

(5) Consists of 3,101,568 shares and warrants to purchase 1,333,334 shares. The securities are owned by Cormag Holdings, Ltd., a Canadian corporation. Mark Douglas Scott is the President, sole stockholder and director of Cormag and has sole voting and dispositive power with respect to the shares owned by Cormag. The owners address is 104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6. Mr. Scott is a Canadian citizen. The information in this Note 8 is based in part on information contained in the Schedule 13G/A Amendment No. 1 filed with the SEC by Cormag Holdings and Mr. Scott on January 27, 2015.

(6) Consists of (i) 2,737,644 shares of Common Stock owned by Wayne Corona and (ii) 33,032 shares of commons stock owned by MKW Partners, LLC ("MKW"). Mr. Corona is the Managing Member of MKW and has sole voting and dispositive power with respect to the shares owned by MKW. The information contained in this Note 6 is based in part on the information contained in Schedule 13G Amendment No. 1 filed with the SEC by Mr. Corona on July 29, 2013.

(7) Consists of (i) 413,030 shares of Common Stock and (ii) 203,082 shares of Series B Preferred Stock convertible into 2,313,104 shares of Common Stock, based on a conversion factor approximately 11.39. The securities described above are owned by Milfam I L.P., a Georgia limited partnership ("Milfam L.P.") Milfam LLC, an Ohio limited liability company ("Milfam LLC") is the general partner of Milfam L.P. Mr. Miller is the manager of Milfam LLC. As the manager of Milfam LLC, Mr. Miller has sole dispositive and voting power with respect to the securities owned by Milfam L.P. Mr. Miller's address is 222 Lakeview Avenue, Suite 160-365, West Palm Beach, FL 33401. The information in this Note 7 is based in part on information contained in the Schedule 13D/A Amendment No. 12 filed with the SEC by Lloyd I. Miller, III on November 3, 2014.

(8) Consists of 1,666,667 shares and warrants to purchase 833,333 shares. The securities are owned by Osgar Holdings Ltd., a Canadian corporation. Hong Penner is the President, sole stockholder and director of Osgar and has sole voting and dispositive power with respect to the shares owned by Osgar. The owners address is 400 St. Mary Avenue, 9th Floor, Winnipeg, Manitoba, Canada R3C4K5. Ms. Penner is a Canadian citizen. The information in this Note 8 is based in part on information contained in the Schedule 13G filed with the SEC by Osgar Holdings and Ms. Penner on January 27, 2015.

(9) 203,082 shares of Series B Preferred Stock convertible into 2,313,104 shares of Common Stock, based on a conversion factor of approximately 11.39. The securities described above are owned by HWH Lending, LLC, a Delaware limited liability company ("HWH"). Ms. Singer is the sole trustee of The Singer Children's Management Trust (the "Trust"). The Trust is the sole member of HWH. As the trustee of the Trust, Ms. Singer has sole dispositive and voting power with respect to the securities owned by HWH. Ms. Singer's address is 212 Vaccaro Drive, Cresskill, NJ 07626. The information in this Note 9 is based in part on information contained in the Schedule 13G/A Amendment No. 1 filed with the SEC by Karen Singer on February 9, 2015.

(10) Consists of (i) 1,935,708 shares, (ii) 19,604 shares of Series B Preferred Stock which is convertible into 223,290 shares, based on a conversion factor of approximately 11.39, and (iii) warrants to purchase 42,846 shares. Ms. Marra has sole dispositive and voting power with respect to 1,751,136 shares, and shared dispositive and voting power with Ralph Marra with respect to 4,029 shares. Ralph Marra has sole dispositive and voting power with repect to 446,680 shares, and shared dispositive and voting power with Janice Marra with repect to 4,029 shares. Excludes 90,000 shares held in Trust for Janice and Ralph Marra's minor children. The business address for Ms. And Mr. Marra is 5 Post Road, Rumson, NJ 07760. The information contained in this Note 10 is based in part on the information contained in Schedule 13G/A Amendment No. 1 filed with the SEC by Ms. And Mr. Marra on February 14, 2014.

(11) Includes stock options to purchase 250,000 shares of Common Stock. Does not include stock options to purchase 500,000 shares of Common Stock that are not currently exercisable within 90 days of December 31, 2014.

(12) Includes stock options to purchase 1,226,190 shares of Common Stock. Does not include stock options to purchase 66,667 shares of Common Stock that are not exercisable within 90 days of December 31, 2014.

(13) Includes stock options to purchase 630,000 shares of Common Stock.

(14) Includes stock options to purchase 495,000 shares of Common Stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Related Party Transactions

Effective September 4, 2014, the Company entered into a Consulting Agreement with Dr. Bruce Bedrick, a major shareholder, to provide consulting services related to business development and marketing activities for the Company and other duties as agreed to by management. The Company is required to pay a monthly fee of $10,000 plus expense reimbursement. Subsequent to the effective date, the Dr. Bedrick agreed to defer the payment of the monthly fee for a period of four months beginning with the November 4, 2014 payment. The deferred fees will be payable on the earlier of the termination date and the second anniversary of the effective date. The Consulting Agreement has an initial term of one year and can be automatically renewed for a one year period unless terminated by either party. The Agreement may be terminated by the Company by providing a sixty day notice prior to the first anniversary of the effective date. During the year ended December 31, 2014, the Company incurred expense of and paid $21,110.

Between June 2009 and April 2012, an employee who is the son of the managing member of a limited liability company that beneficially owns approximately 12% of the Company's Common Stock received advances from the Company in various forms. As of December 31, 2012, the balance of these advances totaled $391,469 including interest, and the outstanding balance of these advances was $156,469. The Company also provided fulfillment services at no charge to a business partly owned by a member of his household. The Company's Board of Directors determined that not all of these advances were approved in accordance with the Company's policy on related party transactions, documented appropriately or recorded correctly in the Company's accounting system. As a result, the Company was not able to monitor the outstanding amount of these advances on a continuous basis. In April 2012, this employee voluntarily resigned from the Company. Principal repayments towards the outstanding advances aggregating $235,000 have been made through December 31, 2013. The individual agreed to repay the remaining balance with interest based on prime rate on the first business day of the calendar quarter. Previously included in accounts receivable, the amount has been reclassified under Stockholders' Deficiency as the Company has determined to exercise its rights through a pledge agreement for 42,860 shares as collateral. At December 31, 2014 and 2013, the Company estimated the value of the collateral at $2,143 and $9,001, respectively.

The Company intends to adopt a more robust formal written policy on related party transactions as part of the Board's plan to remediate the weaknesses in our internal controls and improve the quality of our policies and procedures. Although formal procedures for the review, approval or ratification of transactions with related persons have not been adopted, the Company adheres to a general policy that such transactions should only be entered into if they are on terms that, on the whole, are no more favorable, or no less favorable, than those available from unaffiliated third parties and their approval is in accordance with applicable law The Company's Audit Committee will review and discuss with management potential transactions with related parties. Related party transactions requiring Audit Committee approval include transactions that are significant in size and transactions that involve terms or aspects that differ from those which would be entered into between independent parties.

In connection with an application submitted for the creation and support to the Company from the state of Kentucky in 2011, Lalit Dhadphale and Cape Bear Partners LLC received 250,000 options and 250,000 warrants, respectively. The vesting and exercise of the options and warrants are not probable as the Company is no longer pursuing this support from Kentucky.

Although we have not adopted formal procedures for the review, approval or ratification of transactions with related persons, we adhere to a general policy that such transactions should only be entered into if they are on terms that, on the whole, are no more favorable, or no less favorable, than those available from unaffiliated third parties and their approval is in accordance with applicable law. Such transactions require the approval of our board of directors.

Director Independence

Our board of directors has determined that Youssef Bennani, Joseph Savarino and Ned Siegel are "independent" within the meaning of Rule 5605(a)(2) of the National Association of Securities Dealers' Marketplace Rules of the Nasdaq Stock Market (the "NASDAQ Rules"), and that they are also "independent" for purposes of Rule 10A-3 of the Exchange Act. Lalit Dhadphal is not "independent" within the meaning of Rule 5605(a)(2) of the NASDAQ Rules.

In making each of these independence determinations, our board of directors considered and broadly assessed, from the standpoint of materiality and independence, all of the information provided by each director in response to detailed inquiries concerning the director's independence and any direct or indirect business, family, employment, transactional or other relationship or affiliation of such director with our company.

Item 14. Principal Accounting Fees and Services.

The following table presents fees billed or expected to be billed for professional services rendered by the Company's principal accountant. Marcum LLP, for the audit of the Company's annual consolidated financial statements for the years ended December 31, 2014, and 2013, and fees billed for other services rendered by our principal accountants during those periods.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Audit Fees (1)	$ 110,000	$ 134,082
Audit Related Fees (2)	-	-
Tax Fees (3)	-	-
All Other Fees (4)	-	-

(1) Audit fees were principally for audit work performed on our annual financial statements and review of our interim financial statements.

(2) There were no "audit-related services" during the period.

(3) There were no "tax services" during the period.

(4) There were no "other services" during the period.

During the years ended December 31, 2014 and 2013, the Audit Committee met to review and approve the filing of Forms 10-K and 10-Q. All audit and non-audit services were pre-approved by the Board of Directors.

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Pre-Approval Policies and Procedures

To help ensure the independence of our independent registered public accounting firm, all audit and permitted non-audit services, including the fees and terms thereof, to be performed by our independent registered public accounting firm must be approved in advance by the Audit Committee, as a Committee or the Committee may delegate to one or more of its members the authority to grant the required approvals.

Item 15. Exhibits, Financial Statement Schedules.

(a) Exhibits

Exhibit No. Description

Exhibit No.	Description
2.1	Share Exchange Agreement, dated May 14, 2009, between Clacendix, Inc. and HealthWarehouse.com, Inc. (1)
2.2	Asset Purchase Agreement, dated February 14, 2011, among Hocks Acquisition Corporation, and Hocks Pharmacy, Inc. and its shareholders. (10)
2.3	Merger Agreement dated February 14, 2011, among HealthWarehouse.com, Inc., Hocks Acquisition Corporation, Hocks Pharmacy, Inc. and its shareholders, and Hocks.com, Inc. (10)
3.1	Certificate of Incorporation of the Company, as amended through December 31, 2005. (2)
3.2	Certificate of Amendment of the Certificate of Incorporation of the Company, filed on January 4, 2008. (3)
3.3	Certificate of Amendment of the Certificate of Incorporation of the Company, filed on July 14, 2008. (4)
3.4	Certificate of Amendment of the Certificate of Incorporation of the Company, filed on July 31, 2009. (5)
3.5	Certificate of Amendment to the Company’s Certificate of Incorporation filed on July 16, 2010. (8)
3.6	State of Delaware Certificate of Amendment of Certificate of Incorporation dated October 17, 2014 (19)
3.7	Certificate of Designation of Preferences, Rights and Limitations of Series B Preferred Stock Pursuant to Section 151 of the Delaware General Corporation Law. (9)
3.8	Amended and Restated By-Laws of the Company. (9)

3.9	Certificate of Designation of Preferences, Rights and Limitations of Series C Preferred Stock Pursuant to Section 151 of the Delaware General Corporation Law, filed on October 17, 2011. (15)
4.1	Warrant to Purchase 156,250 Shares of the Common Stock of HealthWarehouse.com, Inc. dated November 8, 2010 and Issued to HWH Lending, LLC, as Lender. (11)
4.2	Warrant to Purchase 156,250 Shares of Common Stock of HealthWarehouse.com, Inc. dated November 8, 2010 and issued to HWH Lending, LLC as Lender. (11)
4.3	Warrant to Purchase 156,250 Shares of Common Stock of HealthWarehouse.com, Inc. dated November 8, 2010 and issued to Milfam I L.P. (11)
4.4	Warrant to Purchase 156,250 Shares of Common Stock of HealthWarehouse.com, Inc. dated November 8, 2010 and issued to Milfam I L.P. (11)
4.5	Form of Common Stock Purchase Warrant. (9)
4.6	Senior Secured Convertible Promissory Note dated November 8, 2010 in the amount of $500,000 payable by the Company to the order of Milfam I L.P. (9)
4.7	Senior Secured Convertible Promissory Note dated November 8, 2010 in the amount of $500,000 payable by the Company to the order of HWH Lending, LLC. (9)
4.8	Senior Secured Promissory Note dated September 2, 2011 in the principal amount of $1,500,000 payable by the Company to the order of HWH Lending, LLC. (14)
4.9	Warrant to Purchase 250,000 Shares of the Common Stock of HealthWarehouse.com, Inc., dated September 2, 2011 and Issued to HWH Lending, LLC. (14)

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4.10	Senior Secured Promissory Note dated September 2, 2011 in the principal amount of $1,500,000 payable by the Company to the order of Milfam I, L.P. (14)
4.11	Warrant to Purchase 250,000 shares of the Common Stock of Healthwarehouse.com, Inc. dated September 2, 2011 and issued to Milfam I, L.P. (14)
4.12	Form of Common Stock Purchase Warrant. (15)
4.13	Promissory Note dated March 28, 2013 in the amount of $500,000 payable by the Company to the order of Melrose Capital Advisors, LLC. (16)
4.14	Warrant to Purchase 750,000 shares of the Common Stock of HealthWarehouse.com, Inc. dated March 18, 2013 and issued to Melrose Capital Advisors, LLC. (16)
4.15	Amended and Restated Promissory Note dated April 29, 2014 in the amount of $750,000 payable by the Company to the order of Melrose Capital Advisors, LLC
4.16	Common Stock Purchase Warrant dated April 29, 2014 for 75,000 common shares
4.17	Amendment to Amended and Restated Promissory Note dated August 18, 2014
10.4	Loan and Security Agreement dated November 8, 2010 among HealthWarehouse.com, Inc. and Hwareh.com, Inc., as Borrowers, and HWH Lending, LLC and Milfam I L.P. as Lenders. (9)
10.5	Securities Purchase Agreement dated August 3, 2011. (12)
10.6	Investor Rights Agreement dated August 3, 2011. (12)
10.7	Indemnification Agreement dated August 3, 2011. (12)
10.8	Lease agreement dated June15, 2011 between the Company and the landlord for 7107 Industrial Road Florence, Kentucky. (13)
10.9	Loan and Security Agreement dated September 2, 2011 among HealthWarehouse.com, Inc., Hwareh.com, Inc. and Hocks.com, Inc., as Borrowers, and HWH Lending LLC, and Milfam I, L.P., as Lenders. (14)
10.10	Stock Purchase Agreement dated September 2, 2011 between the Company and Rock Castle Holdings, LLC. (14)
10.11	Securities Purchase Agreement dated October 17, 2011. (15)
10.12	Amendment No. 1 to Investor Rights Agreement dated October 17, 2011. (15)

10.13	Form of Subscription Agreement for Common Stock. (15)
10.14	Security Agreement dated March 28, 2013 between HealthWarehouse.com, Inc., Hwareh.com, Inc. and Hocks.com, Inc., as Debtors, and Melrose Capital Advisors, Inc. as secured party. (16)
10.15	Amended and Restated Promissory Note dated September 30, 2013 in the amount of $600,000 payable by the Company to the order of Melrose Capital Advisors, LLC
10.16	Warrant to Purchase 150,000 shares of the Common Stock of HealthWarehouse.com, Inc. dated September 30, 2013 and issued to Melrose Capital Advisors, LLC.
10.17	Security Agreement dated September 30, 2013 between Pagosa Health LLC, as Debtor, and Melrose Capital Advisors, Inc. as secured party.

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10.18	Promissory Note dated October 30, 2013 in the amount of $100,000 payable by the Company to the order of Steven Deixler
10.19	Warrant to Purchase 150,000 shares of the Common Stock of HealthWarehouse.com, Inc. dated October 30, 2013 and issued to Steven Deixler.
10.20	Subordination Agreement dated October 30, 2013 among Melrose Capital Advisors, LLC, the Company and Steven Deixler
10.21	Amended and Restated Promissory Note dated March 28, 2014 in the amount of $700,000 payable by the Company to the order of Melrose Capital Advisors, LLC
10.22	Warrant to Purchase 150,000 shares of the Common Stock of HealthWarehouse.com, Inc. dated March 28, 2014 and issued to Melrose Capital Advisors, LLC.
10.23	Amendment to Amended and Restated Promissory Note dated August 15, 2014 between the Company and Melrose Capital Advisors, LLC.(18)
10.24	Deposit Account Control Agreement dated August 18, 2014 between the Company, Melrose Capital Advisors, LLC and The Bank of Kentucky, Inc.
10.25	2009 Incentive Compensation Plan
10.26	2014 Equity Incentive Plan (17)
10.27	Amended and Restated Promissory Note dated March 1, 2015 between the Company and Melrose Capital Advisors, LLC.
10.28	Warrant to Purchase 500,000 shares of the Common Stock of HealthWarehouse.com, Inc. dated March 1, 2015 and issued to Melrose Capital Advisors, LLC.
10.29	Waiver Letter dated March 15, 2015 from Melrose Capital Advisors, LLC.
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.*
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.*
32.1	Certification of CEO Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*
32.2	Certification of CFO Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *

101.CAL	XBRL Calculation Linkbase Document *
101.DEF	XBRL Definition Linkbase Dcoument *
101.LAB	XBRL Label Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *

* Filed herewith.

\+ Denotes Management Compensatory Plan or Contract.

1 Incorporated by reference to the Company’s Current Report on Form 8-K filed on May 15, 2009.

2 Incorporated by reference to the Company’s Annual Report on Form 10-K SB filed on March 29, 2006.

3 Incorporated by reference to the Company’s Annual Report on Form 10-K filed on March 27, 2009.

4 Incorporated by reference to the Company’s Annual Report Amendment on Form 10-KA filed on May 14, 2009.

5 Incorporated by reference to the Company’s Current Report on Form 8-K filed on August 6, 2009.

6 Incorporated by reference to the Company’s Current Report Amendment on Form 8-KA filed on May 26, 2009.

7 Incorporated by reference to the Company’s Annual Report on Form 10-K filed on April 15, 2010.

8 Incorporated by reference to the Company’s Current Report on Form 8-K filed on July 21, 2010.

9 Incorporated by reference to the Company’s Current Report on Form 8-K filed on November 12, 2010.

10 Incorporated by reference to the Company’s Current Report on Form 8-K filed on February 16, 2011.

11 Incorporated by reference to the Company’s Annual Report on Form 10-K filed on April 15, 2011.

12 Incorporated by reference to the Company’s Current Report on Form 8-K filed on August 8, 2011.

13 Incorporated by reference to the Company’s Quarterly Report on Form 10-Q filed on August 15, 2011.

14 Incorporated by reference to the Company’s Current Report on Form 8-K filed on September 6, 2011.

15 Incorporated by reference to the Company’s Current Report on Form 8-K filed on October 20, 2011.

16 Incorporated by reference to the Company’s Current Report on Form 8-K filed on April 3, 2013.

17 Incorporated by reference to the Company’s Definitive Proxy Statement filed on September 26, 2014.

18 Incorporated by reference to the Company’s Current Report on Form 10-Q filed on August 19, 2014.

19 Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the three months ended September 30, 2014 filed on November 14, 2014.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 27, 2015

HEALTHWAREHOUSE.COM, INC.

By: /s/ Lalit Dhadphale
Lalit Dhadphale
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Lalit Dhadphale Lalit Dhadphale	President, Chief Executive Officer, Director and Principal Financial and Accounting Officer	March 27, 2015
/s/ Youssef Bennani Youssef Bennani	Director	March 27, 2015
/s/ Joseph Savarino Joseph Savarino	Director	March 27, 2015
/s/ Ambassador Ned L. Siegel Ambassador Ned L. Siegel	Director	March 27, 2015

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Healthwarehouse.com, Inc. and Subsidiaries

Index to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013

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Report of Independent Registered Public Accounting Firm

To the Audit Committee of the Board of Directors and Stockholders of
Healthwarehouse.com, Inc.

We have audited the accompanying consolidated balance sheets of Healthwarehouse.com, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Healthwarehouse.com, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Marcum LLP
Marcum LLP

New York, NY
March 27, 2015

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash	$ 506,019	$ 67,744
Restricted cash	195,088	-
Accounts receivable, net	100,886	307,211
Inventories	144,236	277,300
Prepaid expenses and other current assets	60,202	59,143
Total current assets	1,006,431	711,398
Property and equipment, net	511,286	624,634
Web development costs, net	142,541	83,780
Total assets	$ 1,660,258	$ 1,419,812
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable – trade	$ 2,542,938	$ 3,310,000
Accounts payable – related parties	84,314	83,691
Accrued expenses and other current liabilities	680,506	621,052
Deferred revenue	7,009	95,792
Current portion of equipment lease payable	64,101	56,323
Notes payable, net of debt discount of $58,367 as of December 31, 2014	791,633	-
Note payable and other advances – related parties	73,095	78,095
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, 2014 and December 31, 2013 (aggregate liquidation preference of $1,000,000)	1,000,000	1,000,000
Total current liabilities	5,243,596	5,244,953
Long term liabilities:		
	-	430,002

Notes payable, net of debt discount of $269,998 as of December 31, 2013						
Long term portion of equipment lease payable		46,143			109,964	
Total long term liabilities		46,143			539,966	
Total liabilities		5,289,739			5,784,919	
Commitments and contingencies						
Stockholders' deficiency:						
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding						
as of December 31, 2014 and December 31, 2013 as follows:						
Convertible preferred stock - Series A – 200,000 shares designated Series A; 44,443 shares available						
to be issued; no shares issued and outstanding		-			-	
Convertible preferred stock - Series B – 625,000 shares designated Series B; 451,879 and 422,315						
shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively (aggregate						
liquidation preference of $4,569,175 and $4,270,257 as of December 31, 2014		452			422	
and December 31, 2013, respectively)						
Common stock – par value $0.001 per share; 100,000,000 shares authorized, 38,749,595						
and 27,708,303 shares issued and 37,570,383 and 26,529,091 shares outstanding as of						
December 31, 2014 and December 31, 2013, respectively		38,751			27,708	
Additional paid-in capital		29,966,039			27,166,147	
Employee advances		(2,143	)		(9,001	)
Treasury stock, at cost, 1,179,212 shares as of December 31, 2014 and December 31, 2013		(3,419,715	)		(3,419,715	)
Accumulated deficit		(30,212,865	)		(28,130,668	)
Total stockholders' deficiency		(3,629,481	)		(4,365,107	)
Total liabilities and stockholders' deficiency	$	1,660,258		$	1,419,812	

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

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

	For the Year Ended December 31, 2014			2013	
Net sales	$	6,129,660	$	10,233,112	
Cost of sales		2,492,382		5,111,737	
Gross profit		3,637,278		5,121,375	
Operating expenses:					
Selling, general and administrative expenses		5,370,727		7,554,954	
Loss from operations		(1,733,449)		(2,433,579)	
Other income (expense):					
Gain on settlement of payables		281,911		-	
Loss on extinguishment of debt		-		(2,792,900)	
Interest expense		(331,741)		(263,413)	
Total other expense		(49,830)		(3,056,313)	
Net loss		(1,783,279)		(5,489,892)	
Preferred stock:					
Series B convertible contractual dividends		(298,918)		(279,380)	
Series B convertible deemed dividends		-		(1,532,722)	
Loss attributable to common stockholders	$	(2,082,197)	$	(7,301,994)	
Per share data:					
Net loss – basic and diluted	$	(0.06)	$	(0.23)	
Series B convertible contractual dividends		(0.01)		(0.01)	
Series B convertible deemed dividends		-		(0.07)	
Net loss attributable to common stockholders - basic and diluted	$	(0.07)	$	(0.31)	
Weighted average number of common shares outstanding - basic and diluted		30,036,885		23,401,575	

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2013

	Convertible Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Employee Advances	Treasury Stock		Accumulated Deficit
	Shares	Amount	Shares	Amount			Shares	Amount	
Balances, December 31, 2012	394,685	$395	13,030,397	$13,031	$16,460,385	$(18,858)	1,179,212	$(3,419,715)	$(20,828,674
Stock-based compensation	-	-	-	-	558,286	-	-	-	-
Warrants issued to 2012 private placement investors	-	-	-	-	487,200	-	-	-	-
Issuance of Series B preferred stock as payment-in-kind for dividend	27,630	27	-	-	261,057	-	-	-	-
Cashless exercise of warrants into common stock	-	-	10,342,931	10,342	(10,342)	-	-	-	-
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	(279,380
Beneficial conversion feature and deemed dividend on Series B convertible									

preferred stock	-	-	-	-	1,532,722	-	-	-	(1,532,722
Warrants issued as debt discount in connection with notes payable	-	-	-	-	403,300	-	-	-	-
Conversion of notes and accounts payable into common stock and warrants	-	-	833,000	833	3,625,067	-	-	-	-
Issuance of common stock and warrants for cash	-	-	3,501,975	3,502	3,498,473	-	-	-	-
Imputed value of services contributed	-	-	-	-	350,000	-	-	-	-
Change in fair value of collateral securing employee advances	-	-	-	-	-	9,857	-	-	-
Net loss	-	-	-	-	-	-	-	-	(5,489,892
Balances, December 31, 2013	422,315	$422	27,708,303	$27,708	$27,166,147	$(9,001)	1,179,212	$(3,419,715)	$(28,130,668

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2014

	Convertible Series B Preferred Stock		Common Stock		Additional Paid-In	Employee	Treasury Stock		Accumulated
	Shares	Amount	Shares	Amount	Capital	Advances	Shares	Amount	Deficit
Balances, December 31, 2013	422,315	$422	27,708,303	$27,708	$27,166,147	$(9,001)	1,179,212	$(3,419,715)	$(28,130,668)
Stock-based compensation	-	-	-	-	830,518	-	-	-	-
Shares issued as pursuant to employment agreement	-	-	21,289	21	10,625	-	-	-	-
Issuance of Series B preferred stock as payment-in-kind for dividend	29,564	30	-	-	279,350	-	-	-	-
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	(298,918)
Warrants issued as debt discount in connection with notes payable	-	-	-	-	36,000	-	-	-	-
Issuance of common stock and warrants for cash, net of costs	-	-	11,020,003	11,022	1,526,733	-	-	-	-

Imputed value of services contributed	-	-	-	-	116,666	-	-	-	-
Change in fair value of collateral securing employee advances	-	-	-	-	-	6,858	-	-	-
Net loss	-	-	-	-	-	-	-	-	(1,783,279)
Balances, December 31, 2014	451,879	$452	38,749,595	$38,751	$29,966,039	$(2,143)	1,179,212	$(3,419,715)	$(30,212,865)

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

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

	For the Year Ended December 31, 2014	2013
Cash flows from operating activities		
Net loss	$ (1,783,279)	$ (5,489,892)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	-	44,535
Change in fair value of collateral securing employee advances	6,858	9,857
Depreciation and amortization	172,167	158,029
Stock-based compensation	841,164	558,286
Warrants issued to 2012 private placement investors	-	487,200
Gain on settlement of accounts payable	(281,911)	-
Loss on extinguishment of debt	-	2,792,900
Imputed value of services contributed	116,666	350,000
Amortization of debt discount	247,631	177,665
Changes in operating assets and liabilities:		
Accounts receivable	206,325	(261,894)
Inventories	133,064	118,284
Prepaid expenses and other current assets	(1,059)	(6,851)
Accounts payable – trade	(485,151)	336,226
Accounts payable – related parties	623	57,758
Accrued expenses and other current liabilities	39,916	(452,676)
Deferred revenue	(88,783)	95,792
Net cash used in operating activities	(875,769)	(1,024,781)
Cash flows from investing activities		
Change in restricted cash	(195,088)	850,002
Capital expenditures	(2,964)	-
Website development costs	(114,616)	(98,423)
Net cash provided by (used in) investing activities	(312,668)	751,579
Cash flows from financing activities		
Principal payments on equipment leases payable	(56,043)	(49,122)
Proceeds from issuance of notes payable	150,000	700,000
Repayment of notes payable	-	(2,000,000)
Repayment of notes payable - related party	(5,000)	(4,000)

Repayment of convertible notes payable		-		(1,000,000)
Net proceeds from the sale of common stock		1,537,755		2,651,973
Proceeds from notes payable and other advances – related parties		-		56,000
Repayment of notes payable and other advances – related parties		-		(13,905)
Net cash provided by financing activities		1,626,712		340,946
Net increase in cash		438,275		67,744
Cash - beginning of period		67,744		-
Cash - end of period	$	506,019	$	67,744
Cash paid for:				
Interest	$	86,692	$	433,792
Taxes	$	-	$	924

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

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

	For the Year Ended December 31,			
		2014		2013
Non-cash investing and financing activities:				
Issuance of Series B preferred stock for settlement of accrued dividends	$	279,380	$	261,084
Cashless exercise of warrants into common stock	$	-	$	10,342
Warrants issued as debt discount in connection with notes payable	$	36,000	$	403,300
Accrual of contractual dividends on Series B convertible preferred stock	$	298,918	$	279,380
Deemed dividends on Series B convertible preferred stock	$	-	$	1,532,722
Common stock and warrants issued in exchange of notes and accounts payable	$	-	$	3,625,900
Conversion of Accounts Payable to Notes Payable	$	-	$	40,000

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

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

1. Organization and Basis of Presentation

HealthWarehouse.com, Inc., a Delaware company incorporated in 1998, (the “Company”) is a U.S. licensed virtual retail pharmacy (“VRP”) and healthcare e-commerce company that sells brand name and generic prescription drugs as well as over-the-counter (“OTC”) medical products. The Company’s objective is to be viewed by individual healthcare product consumers as a low-cost, reliable and hassle-free provider of prescription drugs and OTC medical products. The Company is presently licensed as a mail-order pharmacy for sales to 50 states in the United States and the District of Columbia.

2. Going Concern and Management’s Liquidity Plans

Since inception, the Company has financed its operations primarily through debt and equity financings and advances from related parties. As of December 31, 2014, the Company had a working capital deficiency of $4,237,165 and an accumulated deficit of $30,212,865. During the years ended December 31, 2014 and 2013, the Company incurred net losses of $1,783,279 and $5,489,892, respectively and used cash in operating activities of $875,769 and $1,024,781, respectively. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

Subsequent to December 31, 2014, the Company continues to incur net losses and use cash in operating activities. Funds from the Company’s private placement offering completed during 2014 have improved the Company’s current cash position and working capital constraints; however, the funds are not sufficient to satisfy its current obligations.

On February 13, 2013, the Company received a Notice of Redemption related to its Series C Redeemable Preferred Stock aggregating $1,000,000 (see Note 9). As a result of receiving the Notice of Redemption, the Company must now apply all of its assets to redemption of the Series C Preferred Stock and to no other corporate purpose, except to the extent prohibited by Delaware law governing distributions to stockholders (the Company is not permitted to utilize toward the redemption those assets required to pay its debts as they come due and those assets required to continue as a going concern).

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

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

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

On June 4, 2013, the Company formed a wholly-owned subsidiary called Pagosa Health LLC ("Pagosa"). On January 14, 2014, the Company closed the Pagosa location and decided to focus on its core consumer prescription business. The entity was dissolved in 2014. See Note 10.

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Use of Estimates

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

Cash

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, 2014 and 2013, the Company does not have any cash equivalents.

Restricted Cash

Restricted cash represents cash held by the Company's credit card processor as a reserve to cover potential future refunds.

Allowance for Doubtful Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts of $47,233 and $250,828 as of December 31, 2014 and 2013, respectively. The Company's management has established an allowance for doubtful accounts sufficient to cover probable and reasonably estimable losses. The nature of the business is that the majority of the payments are made before the product is sent. If the financial conditions of customers were to materially deteriorate, an increase in the allowance amount could be required. The allowance for doubtful accounts considers a number of factors, including collection experience, current economic trends, estimates of forecasted write-offs, aging of the accounts receivable, and other factors.

Inventories

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

Property and Equipment

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. Expenditures for maintenance and repairs, which do not extend the economic useful life of the related assets, are charged to operations as incurred. Gains or losses on disposal of property and equipment are reflected in the statements of operations in the period of disposal.

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair value. As of December 31, 2014, the Company has not recognized any such impairment.

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Website Development Costs

The Company capitalizes costs associated with the development of its website. During the years ended December 31, 2014 and 2013, the Company capitalized $114,616 and $98,423, respectively, of website development costs. The Company is amortizing the website development costs on a three year straight-line basis and incurred amortization expense of $55,855 and $14,643 during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014, unamortized website development costs totaled $142,541. Estimated future amortization expense related to website development costs is $71,013 in 2015, $56,370 in 2016 and $15,158 in 2017.

Shipping and Handling Costs

The Company policy is to provide free standard shipping and handling for most orders shipped during the year. Shipping and handling costs incurred are recognized in selling, general and administrative expenses. Such amounts aggregated $511,636 and $775,083 for the years ended December 31, 2014 and 2013 respectively.

In certain circumstances, shipping and handling costs are charged to the customer and recognized in revenues. The amounts recognized in revenues for the years ended December 31, 2014 and 2013 were $162,221 and $254,067, respectively.

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 working capital approximates fair value because of the relatively short maturity of these instruments. The convertible debt and 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, 2014 and 2013. 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, 2014 and 2013.

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.

Advertising

The Company expenses all advertising costs as incurred. Advertising expense for the years ended December 31, 2014 and 2013 was $103,536 and $1,867, respectively.

Sales Taxes

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

Net Earnings (Loss) Per Share of Common Stock

Basic net earnings (loss) per share is computed by dividing net earnings (loss) attributable to Common Stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings (loss) per share reflects the potential dilution that could occur if securities or other instruments to issue Common Stock were exercised or converted into Common Stock. Potentially dilutive securities are excluded from the computation of diluted net earnings (loss) per share if their inclusion would be anti-dilutive and consist of the following:

	December 31,	
	2014	2013
Options	3,944,557	2,543,150
Warrants	9,339,044	2,342,846
Series B Convertible Preferred Stock	5,146,902	3,472,953
Total potentially dilutive shares	18,430,503	8,358,949

Stock-Based Compensation

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

Preferred Stock

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

Convertible Instruments

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

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

Common Stock Warrants and Other Derivative Financial Instruments

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

The Company evaluated its free standing warrants to purchase Common Stock to assess their proper classification in the balance sheet as of December 31, 2014 and 2013 using the applicable classification criteria enumerated under U.S. GAAP and determined that the Common Stock purchase warrants contain fixed settlement provisions.

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entitiy’s Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Adoption of this pronouncement is not expected to have a material impact on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company has not yet determined the effect of the adoption of this standard and its impact on the Company's consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and its impact on the Company's consolidated financial position and results of operations.

4. Property and Equipment

Property and equipment consist of the following:

	December 31, 2014		December 31, 2013	Estimated Useful Life
Computer Software	$	230,299	$ 230,299	5 years
Equipment		544,108	544,108	15 years
Office Furniture and Equipment		95,754	95,754	7 years
Computer Hardware		30,710	27,746	5 years
Leasehold Improvements		303,318	303,318	(a)
Total		1,204,189	1,201,225	
Less: accumulated depreciation		(692,903)	(576,591)	
Property and Equipment, Net	$	511,286	$ 624,634	

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

Depreciation expense for the above assets for the years ended December 31, 2014 and 2013 was $116,312 and $143,387, respectively.

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5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2014	December 31, 2013
Deferred Rent	$ 36,053	$ 46,254
Advertising	109,930	75,000
Salaries and Benefits	82,222	132,048
Customer Payables	635	39,618
Dividend Payable	298,918	279,380
Accrued Interest	48,868	45,616
Accrued Rent	46,604	-
Other	57,276	3,136
Total	$ 680,506	$ 621,052

6. Convertible Notes Payable

On February 1, 2013, the Company repaid the outstanding principal balance of $1,000,000 of convertible notes plus outstanding accrued interest of $163,861. The convertible notes bore interest at a rate of 7% per annum compounded annually and were due on December 31, 2012.

7. Notes Payable

On January 15, 2013, the Company failed to make required payments aggregating $2,000,000 in principal and approximately $193,000 of accrued interest due on certain note agreements dated September 2, 2011. Accordingly, the Company was in default of its obligations under the loan documents. On February 1, 2013, the Company repaid the notes with an outstanding principal balance of $2,000,000 plus outstanding accrued interest of $199,260. The Company recorded amortization of debt discount associated with the notes payable of $44,363 for the year ended December 31, 2013, using the effective interest method.

The Company is a party to a Loan and Security Agreement (the “Loan Agreement”) with a lender (the "Lender"). Under the terms of the Loan Agreement, the Company borrowed an aggregate of $750,000 from the Lender (the “Loan”), including $150,000 and $600,000 during the years ended December 31, 2014 and 2013, respectively. The Loan is evidenced by a promissory note (the “Senior Note”) in the face amount of $750,000 (as amended). The Senior Note bears interest on the unpaid principal balance of the Note until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (7.50% as of December 31, 2014). Under the terms of the Loan Agreement, the Company has agreed to make monthly payments of accrued interest on the first day of every month. The principal amount and all unpaid accrued interest on the Senior Note is payable on March 1, 2015, or earlier in the event of default or a sale or liquidation of the Company. See Note 14. The Loan may be prepaid in whole or in part at any time by the Company without penalty. The Senior Note contains financial covenants which require the Company to meet certain minimum targets for earnings before interest, taxes and non-cash expenses, including depreciation, amortization and stock-based compensation (“EBITDAS”).

In connection with the Loan Agreement, the Company granted the Lender five-year warrants to purchase an aggregate of 1,125,000 shares of Common Stock at an exercise price of $0.35 per share, of which 225,000 and 900,000 warrants were issued during the years ended December 31, 2014 and 2013, respectively. The warrants contain customary anti-dilution provisions. The warrants had an aggregate relative fair value of $402,500, of which $36,000 and $366,500 were recorded as debt discounts during the years ended December 31, 2014 and 2013, respectively, and will be amortized using the effective interest method over the term of the Senior Note. The Company amortized $229,231 and $130,235 of the debt discount as interest expense during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the remaining unamoritized debt discount was $43,034 and $236,265, respectively. Including the value of warrants issued in connection with Senior Note and subsequent amendments, the Senior Note had an effective interest rate of 40% per annum.

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The Company granted the Lender a first, priority security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Loan, including a Deposit Account Control Agreement, which grants the Lender a security interest in certain bank accounts. The Loan Agreement contains customary negative covenants restricting the Company's ability to take certain actions without the Lender's consent, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. Upon the occurrence of an event of default, the Lender has the right to impose interest at a rate equal to five percent (5.0%) per annum above the otherwise applicable interest rate (the "Default Rate"). The repayment of the Loan 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.

On March 13, 2013, the Company converted an advance from a related party of $40,000 to a notes payable with a maturity date of December 31, 2013. The principal balance of the note is due at maturity, with no interest. The Company made principal payments of $5,000 and $4,000 during the years ended December 31, 2014 and 2013, respectively. The Company is in discussions with the related party to implement a repayment plan. Imputed interest expense on this note was de minimis.

On August 15, 2013, a related party advanced $56,000 to the Company. Subsequently, $7,000 of that advance was repaid to the related party and the Company issued a promissory note for the principal balance of $49,000 (the "Original Note"). The Original Note bears interest at a rate of 10% per annum. The Original Note had a maturity date of November 7, 2013. Through November 21, 2013, the Company repaid $6,905 of the principal of the Original Note and a replacement note was issued for the remaining principal balance of $42,095 (the "Replacement Note"). The Replacement Note waives any existing default under the Original Note and had a maturity date of May 31, 2014. All other terms of the Replacement Note and Original Note are the same. Interest expense on this note was $3,252 and $1,366 during the years ended December 31, 2014 and 2013, respectively. The Company is in discussions with the related party to negotiate a repayment plan.

On October 30, 2013, the Company issued a note payable with a principal amount of $100,000 to a lender. The note bears interest on the unpaid principal balance until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (as of December 31, 2014, the Prime Rate was 3.25% per annum). Under the terms of the note, the Company has agreed to make monthly payments of accrued interest on the first day of every month, beginning on December 1, 2013. The principal amount and all unpaid accrued interest is payable on November 1, 2015 but the Company's obligations are unsecured and are subordinate to its obligations pursuant to the Senior Note described above. The Loan may be prepaid in whole or in part at any time by the Company without penalty. In consideration of the note payable, the Company issued to the lender a five-year warrant to purchase 150,000 shares of Common Stock at an exercise price of $0.35 per share. The warrant contains customary anti-dilution provisions. The warrant had a relative fair value of $36,800 that the Company has recorded as a debt discount which will be amortized using the effective interest method over the term of the October Note. The Company amortized $18,400 and $3,067 of the debt discount as interest expense during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the remaining unamortized debt discount was $15,333 and $33,733, respectively. Including the value of the warrant, the note had an effective interest rate of 26% per annum

8. Equipment Lease Payable

Future minimum lease payments, by year and in the aggregate, under equipment leases, which includes capital leases, as of December 31, 2014, are as follows:

For year ending December 31,		Lease Payments
2015	$	76,086
2016		48,696
Total	$	124,782
Less: Amount representing interest		(14,538)
Present value of future lease payments	$	110,244
Less: Current portion		(64,101)
Long term portion	$	46,143

As of December 31, 2014, the equipment has a gross and net book value of $305,641 and $240,720, respectively. Depreciation of assets held under capital leases in the amount of $20,377 is included in depreciation expense for both years ended December 31, 2014 and 2013.

9. Stockholders' Deficiency

The Company is authorized to issue up to 100,000,000 shares of Common Stock with a par value of $0.001 per share and 1,000,000 shares of preferred stock with a par value of $0.001 per share. Following the approval of the Board of Directors and stockholders of record as of August 25, 2014, the Company filed a Certificate of Amendment with the Secretary of State of Delaware on October 17, 2014, which increased the number of authorized shares of common stock of the Company from 50,000,000 to 100,000,000.

Common Stock

During the year ended December 31, 2013, pursuant to a private placement offering of units that commenced on October 4, 2012 (the "Private Placement"), the Company received an aggregate of $3,501,975 of proceeds related to the sale of 3,501,975 units at a price of $1.00 per unit. The aggregate amount includes $500,000, which was received from an officer, and $850,002, which was received during the fourth quarter of 2012 and classified as restricted cash as of December 31, 2012. Each unit consists of (i) one share of the Company's Common Stock and (ii) a five-year warrant to purchase three shares of the Company's Common Stock at an exercise price of $0.25 per share, such that warrants to purchase an aggregate of 10,505,925 shares of Common Stock were issued. Substantially all of the proceeds from the sale of the units were used by the Company to satisfy all of its obligations under certain convertible notes and notes (see Notes 6 and 7). In connection with the Private Placement, an officer has entered into repurchase agreements with certain purchasers of units, pursuant to which he has agreed to repurchase, subject to certain conditions, one-half of these holder's units at a purchase price of $1.00 per unit if the closing price of the Common Stock is less than $0.25 on five consecutive trading days at any time within one year of February 1, 2013. Cape Bear, which holds a substantial equity position in the Company, also entered into repurchase agreements with certain purchasers, other than the officer, that are substantially similar to the officer's agreements, except that Cape Bear's obligations are secured by a lien over certain real estate.

On March 13, 2013, the Company exchanged $761,000 of notes payable and other advances – related parties and $72,000 of accounts payable to two related parties into an aggregate of 833,000 units at a price of $1.00 per unit. Each unit consists of (i) one share of the Company's Common Stock, and (ii) a five-year warrant to purchase two and three-quarters shares of the Company's Common Stock at an exercise price of $0.25 per share (such that warrants to purchase an aggregate of 2,290,750 shares of Common Stock were issued). The $3,625,900 aggregate fair value of the securities issued ($2,639,700 related to the warrants and $986,200 related to the Common Stock) was credited to equity at conversion. The Company recorded a $2,792,900 extinguishment loss which represents the incremental fair value of the securities issued as compared to the carrying value of the liabilities.

On January 15, 2014, the Company issued 21,289 shares of Common Stock to an employee in accordance with an employment agreement. The fair value of the shares was $10,646 based on the closing price on the date of issuance which was recorded as stock based compensation expense during the year ended December 31, 2014.

During the year ended December 31, 2014, pursuant to a private placement offering of units that commenced on July 25, 2014 (the "2014 Private Placement"), the Company received an aggregate of $1,653,000 of gross proceeds (net of expenses of $115,245) related to the sale of 11,020,003 units at a price of $0.15 per unit. Each unit consists of (i) one share of the Company's common stock and (ii) a five-year warrant to purchase one-half share of the Company's common stock at an exercise price of $0.30 per share, such that warrants to purchase an aggregate of 5,509,998 shares of common stock were issued. The aggregate fair value of the warrants as of the issuance date was $1,096,202. The Company evaluated these warrants to assess their proper classification using the applicable criteria enumerated by

U.S. GAAP and determined that such warrants met the criteria for equity classification. Proceeds from the sale of the units are to be used to fund the Company's initiatives in the areas of marketing, website improvement and development, inventory and for general working capital purposes.

During the year ended December 31, 2014, the Company granted certain options and warrants which, upon settlement, may have exceeded the limit on the authorized number of shares of common stock. The Company follows a sequencing policy for which in the event partial reclassification of contracts subject to ASC 815-40-25 is necessary, due to the Company's inability to demonstrate it has sufficient authorized shares, shares will be allocated on the basis of earliest issuance date of potentially dilutive instruments with the earliest grants receiving first allocation of shares. The Company evaluated such instruments and determined that the fair value of such instruments at the date of issuance and the change in fair value was determined to have a de minimus impact on the Company's consolidated financial statements. Subsequent to such issuance and prior to December 31, 2014, the Company obtained stockholder approval to increase the number of authorized shares of common stock of the Company from 50,000,000 to 100,000,000.

Preferred Stock

Series A Preferred Stock

The Company has designated 200,000 of the 1,000,000 authorized shares of preferred stock as Series A Convertible Preferred Stock ("Series A Preferred Stock"). The Series A Preferred Stock is non-voting, has a liquidation preference equal to its purchase price, and does not pay dividends. The holders can call for the conversion of the Series A Preferred Stock at any time and are entitled to half a share of the Company's Common Stock for each share of Series A Preferred Stock converted. As of December 31, 2013, 44,443 shares of Series A Preferred Stock are available to be issued. There is no Series A Preferred Stock outstanding as of December 31, 2014 or 2013.

Series B Preferred Stock

The Company has designated 625,000 of the 1,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock ("Series B Preferred Stock"). The Series B Preferred Stock has voting rights equal to one vote for each common share equivalent, has a liquidation preference equal to its purchase price, and receives preferred dividends equal to 7% of all outstanding shares in either cash or payment-in-kind. The holders can call for the conversion of the Series B Preferred Stock at any time and are entitled to five shares of the Company's Common Stock for each share of Series B Preferred Stock converted. In addition, the Series B Preferred Stock is subject to weighted average anti-dilution protection whereby if shares of Common Stock are sold below the current conversion price, the conversion price is reduced pursuant to a pre-defined formula. As of December 31, 2014 and 2013, Series B holders were entitled to convert into 11.39 and 8.22 shares, respectively, of the Company's Common Stock for each share of Series B Preferred Stock due to the anti-dilution provision. The anti-dilution provision represents a contingent beneficial conversion feature. As of December 31, 2014, an incremental 2,887,507 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 $7,288,068. 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, a beneficial conversion feature of only $1,532,722 was recorded for the year ended December 31, 2013.

As of December 31, 2014 and 2013, the Company had accrued contractual dividends of $298,918 and $279,380, respectively, related to the Series B Preferred Stock. On January 1, 2015, and 2014, the Company issued 31,633 and 29,564 shares of Series B convertible preferred stock valued at approximately $299,000 and $279,000, respectively, representing approximately $0.66 in value per share of Series B Preferred Stock outstanding on each date, to the Series B convertible preferred stock owners as payment in kind for dividends.

Series C Preferred Stock

On October 17, 2011, the Company filed a Certificate of Designation of Preferences, Rights and Limitations with the Secretary of State of the State of Delaware fixing the rights, preferences and restrictions of a newly formed class of Series C Preferred Stock. The 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 holder could make a mandatory redemption request at any time on or after January 15, 2013. 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. In connection with the issuance, the investor received five-year immediately exercisable warrants to purchase 270,000 shares of the Company’s Common Stock at an exercise price of $2.90 per share and which had a relative fair value of $526,522 on the date of grant. The $526,522 relative fair value was recorded as a discount against the Series C Preferred Stock and was initially amortized as deemed dividends over the period through January 15, 2013.

On February 13, 2013, the Company received a Notice of Redemption of Series C Preferred Stock. As a result of the Convertible Notes coming due and not being paid on December 31, 2012, the Company accelerated the accretion rate of the deemed dividend on the Redeemable Preferred Stock – Series C and reclassified the Redeemable Preferred Stock – Series C from temporary equity to current liabilities.

Incentive Compensation / Stock Option Plans

The 2009 Incentive Compensation Plan (the “2009 Plan”) was approved on May 15, 2009 and June 4, 2009, and the increase in the total number of shares of Common Stock issuable pursuant to the 2009 Plan to 2,881,425 was approved on October 4, 2010 and September 20, 2011 by the Board of Directors and Stockholders, respectively.

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

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

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

Stock Options

Grants

On February 15, 2013 and December 23, 2013, the Company granted options to employees to purchase an aggregate of 430,500 shares of Common Stock under the 2009 Plan at an exercise price ranging from $0.53 to $1.60 per share for an aggregate grant date value of $425,824. The options vest over a three year period and have a term of ten years.

On June 19, 2013 and October 30, 2013, the Company granted options to certain directors to purchase 505,000 shares of Common Stock under the 2009 Plan at an exercise price ranging from $0.30 to $1.45 per share for a grant date value of $198,820. The options vest over a one to three year period and have a term of ten years.

On August 27, 2014 and October 23, 2014, the Company granted options to directors of the Company to purchase an aggregate of 1,687,857 shares of common stock under the 2009 Plan and 2014 Plan at an exercise price of between $0.12 to $0.16 per share for an aggregate grant date value of $266,472. The options have a vesting period ranging from immediate to three months and have a term of ten years.

On October 23, 2014, the Company granted options to an employee of the Company to purchase an aggregate of 250,000 shares of common stock under the 2009 Plan at an exercise price of $0.18 per share for an aggregate grant date value of $35,825. The options have a vesting period of one year and have a term of five years.

Valuation and Amortization

Option valuation models require the input of highly subjective assumptions. The fair value of the stock-based payment awards is estimated utilizing the Black-Scholes option model. The volatility component of this calculation is derived from the historical trading prices of the Company's own Common Stock. The Company accounts for the expected life of options in accordance with the "simplified" method which enables the use of the simplified method for "plain vanilla" share options as defined in Staff Accounting Bulletin No. 107. The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. The Company estimated forfeitures related to option grants at a weighted average annual rate of 4% per year for options granted during the years ended December 31, 2014 and 2013.

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

	For Year Ended December 31,	
	2014	2013
Risk free interest rate	0.97% to 2.29%	1.13% to 2.03%
Dividend yield	0.00%	0.00%
Expected volatility	190% to 191.0%	162.0% to 175.0%
Expected life in years	3.0 to 10.0	5.5 to 6.0

The weighted average fair value of the stock options granted during the years ended December 31, 2014 and 2013 was $0.16 and $0.91 per share, respectively.

Stock-based compensation expense related to stock options was recorded in the consolidated statements of operations as a component of selling, general and administrative expenses and totaled $698,015 and $558,286 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, stock-based compensation expense related to stock options of $1,135,635 remains unamortized, including $244,066 which is being amortized over the weighted average remaining period of 1.1 years. The remaining $891,569 is related to a performance based option where vesting is currently deemed to be improbable and no amount is being amortized.

Summary

A summary of the stock option activity during the years ended December 31, 2014 and 2013 is presented below:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Life In Years		Aggregate Intrinsic Value
Outstanding, January 1, 2013	2,183,899	$	2.76			
Granted	935,500		0.91			
Exercised	-		-			
Forfeited	(576,249)		3.96			
Outstanding, December 31, 2013	2,543,150	$	2.37			
Outstanding, January 1, 2014	2,543,150	$	2.37			
Granted	1,937,857		0.13			
Exercised	-		-			
Forfeited	(536,450)		2.37			
Outstanding, December 31, 2014	3,944,557	$	1.27	7.4	$	-
Exercisable, December 31, 2014	3,135,876	$	1.11	8.0	$	-

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The following table presents information related to stock options at December 31, 2014:

	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
$ 0.12 - $2.20	$ 0.36	2,870,807	$ 0.26	9.2	2,339,126
$ 2.21 - $3.80	3.23	757,750	2.95	3.0	507,750
$ 3.81 - $6.99	4.88	316,000	4.73	7.0	289,000
$ 0.12 - $6.99	$ 1.27	3,944,557	$ 1.11	8.0	3,135,876

Warrants

Valuation

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

Grants

	For Year Ended December 31, 2014	For Year Ended December 31, 2013
Risk free interest rate	1.52% to 2.52%	0.74% to 2.84%
Dividend yield	0.00%	0.00%
Expected volatility	171% to 192%	146% to 173.0%
Expected life in years	5.0 to 8.5	5.0 to 9.5

On February 15, 2013, the Company granted vested five-year warrants to purchase an aggregate of 408,345 shares of Common Stock at an exercise price of $1.00 per share to investors who purchased shares in private placements at $4.50 per share during 2012. The warrants had an issuance date fair value of $487,200 which was expensed immediately.

On August 25, 2014 and October 23, 2014, the Company granted vested five-year warrants to purchase an aggregate of 661,200 shares of Common Stock at an exercise price of $0.15 per share to a consultant related to services provided related to the 2014 Private Placement. The warrants had an issuance date fair value of $132,893 which was treated as a cost of capital.

On August 25, 2014, the Company granted vested five-year warrants to purchase an aggregate of 600,000 shares of Common Stock at an exercise price of $0.25 per share to a consultant related to investor relations services to be provided. The warrants had an issuance date fair value of $133,225 which was expensed immediately as stock based compensation.

The weighted average fair value of the stock warrants granted during the years ended December 31, 2014 and 2013, respectively, was $0.20 and $1.34 per share.

Exercise

During the year ended December 31, 2013, the Company issued an aggregate of 10,342,931 shares of Common Stock to several holders of warrants who elected to exercise warrants to purchase 12,505,023 shares of Common Stock on a "cashless" basis under the terms of the warrants. The warrants had exercise prices of $0.25 per share (11,346,675 gross shares), $0.35 per share (750,000 gross shares), and $1.00 per share (408,348 gross shares).

The aggregate intrinsic value of the warrants exercised was $16,983,736 for the year ended December 31, 2013.

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A stock-based compensation benefit related to the mark-to-market adjustment for consultant warrants for the year ended December 31, 2014 was recorded in the consolidated statements of operations as a component of selling, general and administrative expenses and totaled $722. During the years ended December 31, 2014 and 2013, the Company recorded aggregate stock-based compensation expense of $132,503 and $490,420, respectively, related to warrants. As of December 31, 2014, stock-based compensation expense related to warrants of $577,523 remains unamortized, including $683 which is being amortized over the weighted average remaining period of 0.8 years. The remaining $576,840 is related to a performance based warrant where vesting is currently deemed to be improbable and no amount is being amortized.

A summary of the stock warrant activity during the years ended December 31, 2014 and 2013, respectively, is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, January 1, 2013	592,846	$ 3.01		
Granted	14,255,023	$ 0.28		
Exercised	(12,505,023)	$ 0.28		
Forfeited	-	$ -		
Outstanding, January 1, 2014	2,342,846	$ 0.94		
Granted	6,996,198	$ 0.28		
Exercised	-	-		
Forfeited	-	-		
Outstanding, December 31, 2014	9,339,044	$ 0.45	4.2	$ -
Exercisable, December 31, 2014	9,079,044	$ 0.38	4.3	$ -

The following table presents information related to stock warrants at December 31, 2014:

	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
$	$ 0.28	8,746,198	$ 0.28	4.4	8,746,198

	0.15 - $0.35						
$	0.36 - $3.00	2.91	562,846		2.91	1.7	312,846
$	3.01 - $4.95	4.95	30,000		4.95	2.8	20,000
$	0.15 - $4.05	0.45	9,339,044	$	0.38	4.3	9,079,044

Services Contributed

Effective January 1, 2013, the Company's Chief Executive Officer of the Company waived payment for services contributed during 2013. On April 28, 2014, the Compensation Committee approved the payment of an annual salary of $150,000 to the Company's Chief Executive Officer, effective May 1, 2014. As a result, the Company imputed the value of the services contributed and recorded salary expense $116,666 and $350,000 for years ended December 31, 2014 and 2013, respectively, with a corresponding credit to stockholders' deficiency.

10. Commitments and Contingent Liabilities

Operating Leases

The Company is a party to a lease agreement for approximately 62,600 square feet of office and storage space (as amended). The amended monthly lease rate of $9,224 was in effect from January 2012 through December 2013. The monthly lease rate increases to $10,671 for years 2014 and 2015 and to $11,975 in year 2016. 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. The lease expires on January 1, 2017. Deferred rent payable of $36,053 and $46,254 as of December 31, 2014 and 2013, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

On March 13, 2013, the Company gave notice of early termination for a lease agreement for a corporate apartment dated May 31, 2011. Accordingly, the lease expired on March 31, 2013. The Company did not incur any penalties related to the early termination of the lease agreement.

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On June 7, 2013, Pagosa signed a three year lease for $1,000 per month to house an office, pharmacy as well as inventory and is located in Lawrenceburg, IN. On July 8, 2013, the parties agreed to extend the lease for two additional years, such that the new termination date is now June 7, 2018. On January 14, 2014, the Company closed Pagosa and vacated the Lawrenceburg facility. The Company is currently in discussions with the landlord regarding termination of the lease related to the building. The present value of the remaining lease payments of $46,604 was expensed during the year ended December 31, 2014, and is reflected as a component of accrued expenses and other liabilities on the consolidated balance sheet as of December 31, 2014.

On December 15, 2014, the Company entered into a sublease agreement for 34,106 square feet of warehouse space at the Company's corporate headquarters in Florence, Kentucky. The initial term of the sublease expires on June 14, 2015 with rent of $9,948 per month. After the expiration of the initial term, the tenant may extend the term of the sublease agreement on a month to month basis.

Future minimum payments, by year and in the aggregate, under operating leases as of December 31, 2014 are as follows:

For year ending December 31,	Amount
2015	$ 140,052
2016	155,700
2017	12,000
2018	5,000
Total future minimum lease payments	$ 312,752

During the years ended December 31, 2014 and 2013, the Company recorded aggregate rent expense of $250,576 and $174,661, respectively.

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 such 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 February 9, 2012, two of our former stockholders, Rock Castle Holdings, LLC and Jason Smith (collectively "Plaintiffs"), filed suit against us in the Hamilton County, Ohio Court of Common Pleas, alleging that we had breached the terms of certain incentive options we granted to the Plaintiffs in connection with our now-terminated oral consulting arrangements with the Plaintiffs, by among other things, refusing Plaintiffs' purported exercise of options to purchase 233,332 shares of our Common Stock at an exercise price of $2.00 per share in December 2011. Plaintiffs requested that, among other things, the court require us to permit the exercise of the 233,332 options. Plaintiffs also provided an expert report indicating damages of $2.086 million. On December 1, 2014, the Company executed a settlement agreement with the Plaintiff for $150,000 to be paid in unequal monthly installments through June 10, 2015. The settlement amount was included in Selling, General and Administrative expense for the year ended December 31, 2014 and the unpaid balance of $135,000 was included in accounts payable as of December 31, 2014.

On October 9, 2012, American Express Travel Related Services Company, Inc. brought legal action against the Company in the Boone County, Kentucky Circuit Court. The action seeks to recover the unpaid balance on a credit card account in the amount of $87,029, plus interest and costs. The litigation was resolved on July 10, 2013 by a negotiated settlement. The remaining balance of $2,029 is accrued in the accompanying consolidated balance sheet as of December 31, 2014 and was repaid in full in January 2015.

On March 20, 2013, a complaint was filed in the Delaware Court of Chancery by two of our shareholders, HWH Lending, LLC and Milfam I L.P., seeking to compel the holding of an annual meeting of stockholders for the election of directors under Delaware law. We filed an answer to the complaint on April 12, 2013. On May 13, 2013, we publicly announced that the Board of Directors had set the date for our next annual meeting of stockholders as August 15, 2013 at 11:00 a.m. Eastern time. In lieu of further litigation, on July 18, 2013, the parties submitted to the court a proposed order, subsequently entered by the Court, confirming August 15, 2013 as the annual meeting date and establishing certain procedures related to the annual meeting. In accordance with the Court order, our annual meeting of stockholders was held on August 15, 2013 at which time Lalit Dhadphale, Youssef Bennani, Joseph Savarino, and Ambassador Ned Siegel each received a plurality of the total votes cast at the annual meeting and each was elected as a director by our stockholders. On September 24, 2013, this action was dismissed without prejudice by a joint stipulation of dismissal.

The Company was a party to a putative stockholder derivative action that was filed in the Court of Chancery of the State of Delaware on May 7, 2013 against certain directors and our chief executive officer and against us, as a nominal defendant. The complaint alleged claims for breach of fiduciary duty, entrenchment and corporate waste arising out of the alleged failure to conduct annual meetings, SEC filing obligations, advances to a former employee and a $500,000 secured loan to us which the entire board of directors approved. The derivative complaint sought unspecified compensatory damages and other relief. On January 8, 2014, in a stipulation and order of dismissal, the action was dismissed with prejudice to plaintiff, with each party bearing its own attorneys' fees and costs.

On May 15, 2013, a former consultant filed suit in Boone County, Kentucky Circuit Court alleging breach of contract and unjust enrichment for unpaid consulting fees and expenses of approximately $55,000. On September 29, 2014, the Company executed a settlement agreement with the former consultant for $25,000 which was payable in monthly installments through March 1, 2015.

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On October 11, 2013, two of our former directors sent a letter demanding repayment of legal fees and expenses ($80,766 of previously incurred expenses plus future expenses) pursuant to certain Company indemnification and advancement provisions. On November 13, 2013, following the receipt of the Special Committee report, we agreed to indemnify the two former directors for their reasonable legal fees and expenses up to $85,000 less any amount paid to the directors under our directors' and officers' insurance policy. On November 14, 2013, the former directors filed a verified complaint and a motion for expedited proceedings for advancement in the Delaware Court of Chancery. In a stipulation and order dated December 23, 2013, these proceedings were concluded, and the Company agreed to pay the former directors' reasonable attorneys' fees and expenses, which included (i) $87,500 in connection with certain claims and demands and (ii) $27,500 incurred in the Delaware action. Such amounts have been repaid in full as of the date of this report.

Settlement Agreement

On February 22, 2013, the Company entered into a settlement agreement with a counterparty for amounts owed related to the return of expired goods and inventory and the Company wrote down the accounts receivable to the settlement amount as of December 31, 2012. On February 28, 2013, the Company received $50,000 in connection with the agreement in complete satisfaction of all outstanding and past due accounts receivable from the counterparty, such that there was no balance due to the Company as of December 31, 2013.

11. Concentrations

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

During the year ended December 31, 2014, two vendors represented 68% and 14% of total inventory purchases. During the year ended December 31, 2013, two vendors represented 61% and 14% of total inventory purchases, respectively.

One vendor represented 36% and 26% of the accounts payable balance as of December 31, 2014 and 2013, respectively.

12. Related Party Transactions

Effective September 4, 2014, the Company entered into a Consulting Agreement with a stockholder to provide consulting services related to business development and marketing activities for the Company and other duties as agreed to by management. The Company is required to pay the related party a monthly fee of $10,000 plus expense reimbursement. Subsequent to the effective date, the related party agreed to defer the payment of the monthly fee for a period of four months beginning with the November 4, 2014 payment. The deferred fees will be payable on the earlier of the termination date and the second anniversary of the effective date. The Consulting Agreement has an initial term of one year and can be automatically renewed for a one year period unless terminated by either party. The Agreement may be terminated by the Company by providing a sixty day notice prior to the first anniversary of the effective date. During the year ended December 31, 2014, the Company incurred consulting and other expenses of $21,110 and paid the related party such amount.

Beginning July 1, 2013, a director is to be paid $3,000 per month and is entitled to expense reimbursements as compensation for serving on the Company's Board committees. The director served on an Independent Committee (See Footnote 10 – Litigation) starting in July 2013 and concluding in November 2013. As a result, the director earned $12,000 during the year ended December 31, 2013.

Between June 2009 and April 2012, an employee who is the son of the managing member of a limited liability company that beneficially owns over 5% of the Company's Common Stock received advances from the Company in various forms which totaled $391,469 including interest. Principal repayments towards the outstanding advances aggregating $235,000 have been made through September 30, 2014. In April 2012, this employee voluntarily resigned from the Company. The individual agreed to repay the remaining balance with interest based on prime rate on the first business day of the calendar quarter. The amount has been included in Stockholders' Deficiency as the Company has determined to exercise its rights through a pledge agreement for 42,860 shares as collateral. At December 31, 2014 and 2013, the Company estimated the value of the collateral at $2,143 and $9,001, respectively.

From March 2011 to April 2013, a wife of a director served as the agent for the Company's D&O insurance. During year ended December 31, 2013, the Company recorded insurance premium expense of $24,329.

13. Income Taxes

The income tax provision (benefit) for the years ended December 31, 2014 and 2013 was as follows:

	For The Year Ended December 31,	
	2014	2013
Federal:		
Current	$ -	$ -
Deferred	(387,752)	(625,702)
State and local:		
Current	-	-
Deferred	(161,244)	(36,806)
	(548,996)	(662,508)
Change in valuation allowance	548,996	662,508
Income tax provision (benefit)	$ -	$ -

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The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	December 31,			
		2014		2013
Deferred tax assets:				
Net operating loss carryforwards	$	5,315,823	$	4,966,018
Stock-based compensation		722,782		466,078
Inventory reserves		6,090		10,949
Allowance for bad debt		17,948		89,899
Deferred Rent		14,108		-
Contingent Liability		1,910		-
Charitable contribution carryforwards		5,772		5,630
Accruals		31,007		27,352
Total deferred tax assets		6,115,440		5,565,926
Valuation allowance		(6,088,174)		(5,539,178)
Deferred tax assets, net of valuation allowance		27,266		26,748
Deferred tax liabilities:				
Property and equipment		(27,266)		(26,748)
Net deferred tax assets	$	-	$	-
Change in valuation allowance	$	548,996	$	666,508

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. Based upon the history of losses, management believes that it is more likely than not that future benefits of deferred tax assets will not be realized and has established a full valuation allowance for the years ended December 31, 2014 and 2013.

The Company is in the process of filing its federal and state tax returns for the years ended December 31, 2014, 2013, and 2012. The Net operating losses ("NOLs") for these years will not be available to reduce future taxable income until the returns are filed. Assuming these returns are filed, as of December 31, 2014 and 2013, the Company has approximately $14,736,276 and $13,770,000, respectively, of federal NOLs that may be available to offset future taxable income. The federal net operating loss carryforwards, if not utilized, will expire from 2027 to 2034. As of December 31, 2014 and 2013, the Company has approximately $7,637,237 and $3,585,000 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 of approximately $2,116,000 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.

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For the years ended December 31, 2014 and 2013, the expected tax expense (benefit) based on the U.S. federal statutory rate is reconciled with the actual tax expense (benefit) as follows:

	For The Year Ended December 31, 2014		2013	
US federal statutory rate	(34.0	%)	(34.0	%)
State tax rate, net of federal benefit	(4.0	%)	(2.0	%)
Permanent differences				
- Stock based compensation	4.8	%	3.2	%
- Debt extinquishment	0.0	%	18.3	%
- Other	2.4	%	2.5	%
Change in valuation allowance	30.8	%	12.0	%
Income tax provision (benefit)	0.0	%	0.0	%

14. Subsequent Events

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

Notes Payable

Effective March 1, 2015, a lender agreed to extend the maturity date of the Senior Note from March 1, 2015 to September 1, 2015. As part of the extension, financial covenants were set which require the Company to meet certain minimum targets for EBITDAS for the calendar quarters ending on March 31 and June 30, 2015. In consideration of the Lender extending the maturity date of the Senior Note, the Company granted the lender a five-year warrant to purchase 500,000 shares of Common Stock at an exercise price of $0.10 per share. The warrant contains customary anti-dilution provisions.