

HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

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

www.healthwarehouse.com

support@healthwarehouse.com

SIC Code: 5912 - Drugstores and Proprietary Stores

Quarterly Report

For the quarter ended September 30, 2024

As of September 30, 2024, the number of shares outstanding of our Common Stock was 55,271,180.

As of June 30, 2024, the number of shares outstanding of our Common Stock was 55,086,564.

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

Yes No

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

Yes No

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

Yes No

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

HEALTHWAREHOUSE.COM, INC.

Quarterly Report

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PART A – GENERAL COMPANY INFORMATION

1) Exact name of the Issuer and the address of its principal executive offices:

HealthWarehouse.com, Inc. (the “Company”, “Issuer” or “HEWA”).
Formerly Ion Networks, Inc., formed on August 5, 1998.
Name changed to Clacendix, Inc. on January 3, 2008.
Name changed to HealthWarehouse.com, Inc. on July 31, 2009.

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2) Shares outstanding.

Security information as of September 30, 2024:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	175,000,000	55,271,180	13,709,183	177	242
Preferred Stock – Series B	790,000	517,359	-0-	2	2
Preferred Stock – Series C	10,000	6,500	-0-	3	3

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

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

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

Changes to the Number of Outstanding Shares

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

Number of Shares outstanding as of January 1, 2024		Opening Balance									
		Common			54,683,768						
		Preferred Series B			517,359						
		Preferred Series C			6,500						
Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued (\$ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type		
1/15/24	New	46,154	Common	\$0.13	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701		
1/15/24	New	46,154	Common	\$0.13	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701		
1/15/24	New	46,154	Common	\$0.13	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701		
1/15/24	New	46,154	Common	\$0.13	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701		
4/4/24	New	54,545	Common	\$0.11	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701		
4/4/24	New	54,545	Common	\$0.11	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701		
4/4/24	New	54,545	Common	\$0.11	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701		
4/4/24	New	54,545	Common	\$0.11	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701		
7/10/24	New	46,154	Common	\$0.13	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701		
7/10/24	New	46,154	Common	\$0.13	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701		
7/10/24	New	46,154	Common	\$0.13	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701		
7/10/24	New	46,154	Common	\$0.13	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701		
Number of Shares outstanding as of September 30, 2024		Ending Balance									
		Common			55,271,180						
		Preferred Series B			517,359						
		Preferred Series C			6,500						

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

Please see Footnote 11 - Subsequent Events to the Company's condensed consolidated financial statements below for information related to the Company's issuance of common stock related to stock-based compensation for directors.

Debt Securities, Including Promissory and Convertible Notes

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

Date of Note Issuance	Outstanding Balance 9/30/2024	Principal Amount at Issuance (\$)	Interest Accrued (\$) as of 9/30/2024	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	\$ 1,675,000	\$ 1,675,000	\$ -	4/30/2026	Convertible to shares of common stock at \$0.085 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	\$ 525,000	\$ 525,000	\$ -	4/30/2026	Convertible to shares of common stock at \$0.085 per share	Robert B. Ford; Thomas J. Daley 2019 Trust, Thomas J. Daley, Trustee; John Pauly; Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Dwayne Stephens	Repay existing indebtedness and General working capital purposes.

Please see Footnote 5 – Notes Payable to the Company’s unaudited condensed consolidated financial statements for the nine months ended September 30, 2024 for more information.

3) Interim Financial Statements

- a) The following financial statements were prepared in accordance with U.S. GAAP and include the following: Condensed Consolidated Balance Sheets – as of September 30, 2024 (unaudited) and December 31, 2023; Unaudited Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2024 and 2023; Unaudited Condensed Consolidated Statements of Changes in Stockholders’ Deficiency – Three and Nine Months Ended September 30, 2024 and 2023; Unaudited Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2024 and 2023; and Notes to the Unaudited Condensed Consolidated Financial Statements.
- b) The financial statements for this reporting period were prepared by Daniel Seliga, Chief Financial Officer of the Company.

See PART II – UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS below.

4) Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of results of operations and financial condition is based upon, and should be read in conjunction with, our unaudited consolidated financial statements and accompanying notes thereto, included elsewhere in this Quarterly 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” for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

Overview

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

The Company sells directly to individual consumers who purchase prescription medications, medical devices, medical testing kits and over-the-counter products over the Internet. HealthWarehouse.com is currently one of 85 National Association of Boards of Pharmacy (“NABP”) accredited digital pharmacies. In addition, the Company also provides fulfillment services of prescription medication and medical devices to customers of other healthcare providers including telemedicine and online services companies and manufacturers.

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

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

The Company’s objective is to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We have become known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medication. In 2024, we were named a top online pharmacy and featured partner by Forbes Health, placing first in the Forbes study among online pharmacies for its skill at filling multiple prescriptions in a single order.

Results of Operations

For the Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023

	For three months ended September 30, 2024	% of Net Sales	For three months ended September 30, 2023	% of Net Sales
	<i>In thousands</i>			
Net sales	\$ 9,011	100.0%	\$ 4,768	100.0%
Cost of sales	5,226	58.0%	1,836	38.5%
Gross profit	3,785	42.0%	2,932	61.5%
Selling, general & administrative	3,647	40.5%	3,194	67.0%
Income (Loss) from operations	138	1.5%	(262)	(5.5%)
Loss on extinguishment of debt	(3)		-	
Interest expense, net	(61)	(0.7%)	(37)	(0.8%)
Net income (loss)	\$ 74	0.8%	\$ (299)	(6.3%)

Net Sales

	For the three months ended September 30, 2024	%	\$	For the three months ended September 30, 2023
		Change	Change	
	<i>In thousands</i>			
	\$9,011	89.0%	\$4,243	\$4,768

Net sales for the three months ended September 30, 2024 increased to \$9.0 million from \$4.8 million for the three months ended September 30, 2023, an increase of \$4.2 million or 89.0%. Prescription sales were \$8.3 million for the three months ended September 30, 2024, as compared to \$4.2 million for the three months ended September 30, 2023, an increase of \$4.1 million, or 96.3%. These increases were due to growth in our partner services (B2B) business related to the growth in popularity of the diabetes and weight loss medications (GLP-1 medications). Over-the-counter net sales increased by \$167,000 or 36.8% from

\$454,000 in the three months ended September 30, 2023 to \$621,000 in the three months ended September 30, 2024, primarily due to growth in direct-to-consumer (B2C) and partner services business (B2B).

Cost of Sales and Gross Margin

	For three months ended September 30, 2024	%	\$	For three months ended September 30, 2023
		Change	Change	
<i>In thousands</i>				
Cost of sales	\$5,226	184.6%	3,390	\$1,836
Gross margin \$	\$3,785	29.1%	853	\$2,932
Gross margin %	42.0%	(19.5%)		61.5%

Cost of sales were \$5.2 million for the three months ended September 30, 2024 as compared to \$1.8 million for the three months ended September 30, 2023, an increase of \$3.4 million or 184.6%, primarily as a result of growth in brand and compounded GLP-1 prescription products in both B2C and B2B prescription products sold. Gross profit for the three months ended September 30, 2024 was \$3.8 million, a \$853,000 or 29.1% increase when compared to the same period in 2023, as a result of the growth in prescription sales. Gross margin percentage decreased from 61.5% for the three months ended September 30, 2023 to 42.0% for the three months ended September 30, 2024, as a result of decreased year-over-year margins in the B2B prescription business (due to growth in compounded GLP-1 medication sales which have higher costs and lower gross margins due to competitive market prices).

Selling, General and Administrative Expenses

	For three months ended September 30, 2024	%	\$	For three months ended September 30, 2023
		Change	Change	
<i>In thousands</i>				
Selling, general and administrative expenses	\$3,647	14.2%	\$453	\$3,194
% of sales	40.5%			67.0%

Selling, general and administrative expenses totaled \$3.6 million for the three months ended September 30, 2024 compared to \$3.2 million for the three months ended September 30, 2023, an increase of \$453,000, or 14.2%. For the three months ended September 30, 2024, expense increases included: (a) a \$460,000 increase in shipping and shipping supplies expenses and (b) a \$123,000 increase in credit card fees due to the increase in sales volume. These increases were offset by (a) a \$49,000 decrease in stock based compensation expense; (b) a \$32,000 decrease in salaries and related expenses, primarily in pharmacy and customer support direct labor offset by higher marketing and software engineering labor and (c) a \$19,000 decrease in corporate taxes.

Other Income and Expense

Other expenses increased from \$37,000 for the three months ended September 30, 2023 to \$64,000 for the three months ended September 30, 2024, an increase of \$27,000, or 73.0%, primarily due to an increase in amortization of debt discount related to the convertible notes and the recognition of a loss on the extinguishment of debt. Interest income of \$5,000 for the three months ended September 30, 2024 increased by \$2,000 over the same period the prior year due to higher cash balances.

For the Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

	For nine months ended September 30, 2024	% of Net Sales	For nine months ended September 30, 2023	% of Net Sales
	<i>In thousands</i>			
Net sales	\$ 19,912	100.0%	\$ 15,372	100.0%
Cost of sales	10,205	51.3%	6,149	40.0%
Gross profit	9,707	48.7%	9,223	60.0%
Selling, general & administrative	10,015	50.3%	10,228	66.5%
Loss from operations	(308)	(1.6%)	(1,005)	(6.5%)
Loss on extinguishment of debt	(3)		-	
Interest expense, net	(211)	(1.1%)	(119)	(0.8%)
Net loss	\$ (522)	(2.6%)	\$ (1,124)	(7.3%)

Net Sales

	For the nine months ended September 30, 2024	% Change	\$ Change	For the nine months ended September 30, 2023
	<i>In thousands</i>			
	\$19,912	29.5%	\$4,540	\$15,372

Net sales for the nine months ended September 30, 2024 increased to \$19.9 million from \$15.3 million for the nine months ended September 30, 2023, an increase of \$4.5 million, or 29.5%. Prescription sales were \$17.9 million for the nine months ended September 30, 2024, as compared to \$13.1 million for the nine months ended September 30, 2023, an increase of \$4.8 million, or 36.6%. These increases were primarily due to growth in our partner services (B2B) and direct-to-consumer (B2C) businesses related to the growth in GLP-1 medications. Over-the-counter net sales decreased by \$246,000 or 12.2% from \$2.0 million in the nine months ended September 30, 2023 to \$1.8 million in the nine months ended September 30, 2024, primarily due to lower marketplace sales.

Cost of Sales and Gross Margin

	September 30, 2024	Change	Change	September 30, 2023
	<i>In thousands</i>			
Cost of sales	\$10,205	66.0%	4,056	\$6,149
Gross margin \$	\$9,707	5.2%	484	\$9,223
Gross margin %	48.8%	-11.2%		60.0%

Cost of sales were \$10.2 million for the nine months ended September 30, 2024 as compared to \$6.1 million for the nine months ended September 30, 2023, an increase of \$4.1 million or 66.0%, primarily as a result of the growth in sales of high cost GLP-1 medications in our B2C and B2B prescription businesses. Gross profit for the nine months ended September 30, 2024 was \$9.7 million, a \$484,000 or 5.2% increase when compared to the same period in 2023, as a result of the sales growth offset by lower gross margins. Gross margin percentage decreased from 60.0% for the nine months ended September 30, 2023 to 48.8% for the nine months ended September 30, 2024, as a result of decreased year-over-year margins in the prescription

business (due to higher prescription brand and compounded drug sales which have higher costs and lower gross margins due to competitive market prices).

Selling, General and Administrative Expenses

	For nine months ended September 30, 2024	%	\$	For nine months ended September 30, 2023
		Change	Change	
<i>In thousands</i>				
Selling, general and administrative expenses	\$10,015	(2.1%)	(\$213)	\$10,228
% of sales	50.3%			66.5%

Selling, general and administrative expenses totaled \$10.0 million for the nine months ended September 30, 2024 compared to \$10.2 million for the nine months ended September 30, 2023, a decrease of \$213,000, or 2.1%. For the nine months ended September 30, 2024, expense decreases included: (a) a \$296,000 decrease in advertising and marketing expenses; (b) a \$213,000 decrease in salaries and related expenses, primarily in pharmacy and customer support direct labor offset by higher marketing and software engineering labor; (c) a \$130,000 decrease in stock-based compensation expense; (d) a \$57,000 decrease in corporate taxes; and (e) a \$40,000 decrease in accounting expenses. These decreases were offset by increases which included: (a) a \$280,000 increase in shipping and shipping supplies expenses due to increased sales volume; (b) a \$142,000 increase in credit card fee expense, (c) a \$67,000 increase in depreciation and amortization expenses; and (c) a \$61,000 increase in employee benefits expense.

Other Income and Expense

Other expenses increased from \$119,000 for the nine months ended September 30, 2023 to \$214,000 for the nine months ended September 30, 2024, an increase of \$95,000, or 79.8%, primarily due to an increase in amortization of debt discount related to the convertible notes payable and a loss on the extinguishment of debt. Interest income of \$15,000 for the nine months ended September 30, 2024 increased by \$5,000 over the same period the prior year.

Adjusted EBITDA

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

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-U.S. GAAP financial measures to supplement their U.S. GAAP results; and
- Adjusted EBITDA is useful because it excludes non-cash charges, such as depreciation and amortization, stock-based compensation and one-time charges, which the amount of such expense in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between period

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

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

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

	For three months ended September 30,		For nine months ended September 30,	
	2024	2023	2024	2023
	<i>In thousands</i>			
Net income (loss)	\$ 74	\$ (299)	\$ (522)	\$ (1,124)
Interest expense	61	37	211	119
Depreciation and amortization	81	80	242	175
EBITDA (non-GAAP)	216	(182)	(69)	(830)
Adjustments to EBITDA:				
Stock-based compensation	186	235	562	694
Loss on extinguishment of debt	3	-	3	-
Adjusted EBITDA	\$ 405	\$ 53	\$ 496	\$ (136)

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

During the nine months ended September 30, 2024, the Company has experienced price inflation for shipping and packaging supplies, shipping and labor costs, and to a lesser extent certain prescription and over-the-counter products due to supply shortages. Despite increases in those areas, we believe that inflation has not had a material impact on our results of operations for the nine months ended September 30, 2024 and 2023. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Liquidity and Capital Resources

The Company's working capital deficiency was \$2.6 million and the stockholder deficiency was \$4.3 million as of September 30, 2024. For the nine months ended September 30, 2024, the Company had a net loss of \$522,000 but generated net cash from operating activities of \$189,000. As of September 30, 2024, the Company had cash and cash equivalents totaling \$662,000.

On September 30, 2024, the Company extended the maturity date of the Convertible Notes to April 20, 2026, which reduced its current obligations as of September 30, 2024. The primary component of the Company's remaining current obligations is the accrued dividends totaling \$3.0 million to the holders of the Series B Preferred shares. The dividends continue to accrue as Company is restricted from paying dividends if there is no surplus in equity per Delaware law. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company's discretion, when allowable under Delaware law.

The Company experienced improvement in cash from operations during the first nine months of 2024 and anticipates further improvement as (i) the Company expects to receive rebates of \$275,000 during the fourth

quarter of 2024 for purchases made during the second and third quarters of 2024 and (ii) the Company has required deposits from and/or shortened the billing cycle for the new partners to minimize the working capital required to fund the growth in revenues. Therefore, the Company is anticipating an improvement in cash from operations and cash balances during the fourth quarter 2024.

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

As of September 30, 2024 and December 31, 2023, the Company had cash on hand of \$662,000 and \$568,000, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the nine months ended September 30, 2024, cash flows included net cash provided by operating activities of \$189,000. This amount included a decrease in operating cash related to a net loss of \$522,000, offset by aggregate non-cash adjustments of \$991,000 and aggregate cash used by changes in operating assets and liabilities of \$280,000 (primarily a result of increases in accounts receivable, inventory and a decrease in accrued expenses offset by an increase in accounts payable and a decrease in prepaid expenses). For the nine months ended September 30, 2023, cash flows included net cash used in operating activities of \$201,000. This amount included a decrease in operating cash related to a net loss of \$1.1 million, offset by aggregate non-cash adjustments of \$1.4 million (including the reclassification of accounts receivable to other assets) and aggregate cash used by changes in operating assets and liabilities of \$455,000 (primarily a result of an increase in accounts receivables and prepaid expenses and a decrease in accrued expenses offset by an increase in accounts payable and a reduction in inventories).

For the nine months ended September 30, 2024, net cash used in investing activities was \$95,000 which included an asset acquisition for \$55,000, third party engineering and software costs of \$30,000 and equipment purchased for \$10,000 to support the launch of a new partner services customer. For the nine months ended September 30, 2023, net cash used in investing activities was \$310,000 primarily related to software development costs to be capitalized and computer equipment.

For the nine months ended September 30, 2024 and 2023, the Company had no financing activities.

Changes in Financial Condition

The Company's total assets were \$3.7 million at September 30, 2024, an increase of \$446,000 from \$3.2 million at December 31, 2023, primarily due to increases in inventories, other assets and accounts receivable, offset by decreases in prepaid expenses, property and equipment, cash, operating lease right of use asset and software development costs. Total liabilities were \$7.3 million at September 30, 2024, an increase of \$608,000 from the balance at December 31, 2023 of \$6.6 million, primarily due to increases in accounts payable, accrued dividends and convertible notes payable offset by decreases in accrued expenses and operating lease liability.

5) 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 current outstanding matters will have a material adverse effect on the Company's consolidated financial condition or consolidated results of operations. We are not currently involved in any pending or threatened material litigation or other material legal proceedings nor have we been made aware of any penalties from regulatory audits, except as described below.

On March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges that commonplace technologies deployed on the Company's website conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys' fees. After retaining local counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company's motions. On July 10, 2023, the Company filed a second motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company's motions to which the Company replied on August 14, 2023. On August 15, 2023, the court granted the Company's motion dismissing the case, but granting leave to amend the complaint. On September 4, 2023, the Plaintiff filed a Second Amended Complaint, which the Company moved to dismiss on September 18, 2023. Plaintiff opposed the Company's motion on October 30, 2023, to which the Company replied on November 6, 2023. On March 25, 2024, the Judge granted the Company's Motion to Dismiss all claims in the Second Amended Complaint on the basis that the Plaintiff had again failed to adequately allege personal jurisdiction over the Company and granting Plaintiff another chance to amend the complaint. The Plaintiff filed a Third Amended Complaint on April 19, 2024. The Company has now moved to dismiss the Third Amended Complaint for failure to state a claim and lack of personal jurisdiction, that motion is still pending. The Company believes the Complaint is without merit and intends to contest this matter vigorously.

6) Defaults upon senior securities. None.

7) Other information. None.

8) Exhibits. None.

9) Issuer Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Peters, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 13, 2024 /s/ Joseph B. Peters

Joseph B. Peters
Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Daniel Seliga, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 13, 2024 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II – UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>(Unaudited)</u> September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 662,343	\$ 567,959
Accounts receivable	957,404	608,122
Inventories	773,466	509,116
Prepaid expenses and other current assets	137,125	158,146
Total current assets	2,530,338	1,843,343
Property and equipment, net	768,255	910,727
Software development costs, net	294,721	354,556
Other Assets	35,524	-
Operating lease right of use asset	25,691	99,880
Total assets	\$ 3,654,529	\$ 3,208,506
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	\$ 1,443,152	\$ 901,257
Accrued dividends	2,994,539	2,737,864
Accrued expenses and other current liabilities	667,684	835,632
Operating lease liability	28,330	108,776
Total current liabilities	5,133,705	4,583,529
Long term liabilities:		
Convertible notes payable, net of debt discount of \$218,859 as of December 31, 2024	2,200,000	1,981,141
Total long term liabilities	2,200,000	1,981,141
Total liabilities	7,333,705	6,564,670
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value \$0.001 per share; 10,000 shares designated Series C: issued and outstanding 6,500 as of September 30, 2024 and December 31, 2023 (aggregate liquidation preference of \$650,000 as of September 30, 2024 and December 31, 2023)	650,000	650,000
Stockholders' deficiency:		
Preferred stock – par value \$0.001 per share; authorized 1,000,000 shares; issued and outstanding as of September 30, 2024 and December 31, 2023 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of September 30, 2024 and December 31, 2023 (aggregate liquidation preference of \$7,883,580 and \$7,626,907 as of September 30, 2024 and December 31, 2023)	517	517
Common stock – par value \$0.001 per share; 175,000,000 shares authorized as of September 30, 2024 and December 31, 2023; 56,450,392 and 55,862,980 shares issued and 55,271,180 and 54,683,768 shares outstanding as of September 30, 2024 and December 31, 2023	56,450	55,863
Additional paid-in capital	38,319,312	37,864,102
Treasury stock, at cost, 1,179,212 shares as of September 30, 2024 and December 31, 2023	(3,419,715)	(3,419,715)
Accumulated deficit	(39,285,740)	(38,506,931)
Total stockholders' deficiency	(4,329,176)	(4,006,164)
Total liabilities and stockholders' deficiency	\$ 3,654,529	\$ 3,208,506

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
	Total net sales	\$ 9,011,163	\$ 4,767,970	\$ 19,911,722
Cost of sales	5,226,388	1,835,882	10,204,657	6,148,660
Gross profit	3,784,775	2,932,088	9,707,065	9,222,841
Selling, general and administrative expenses	3,647,095	3,194,533	10,015,681	10,228,479
Income (Loss) from operations	137,680	(262,445)	(308,616)	(1,005,638)
Other expense:				
Loss on extinguishment of debt	(3,249)	-	(3,249)	-
Interest expense, net	(60,646)	(36,646)	(210,270)	(118,790)
Total other expense	(63,895)	(36,646)	(213,519)	(118,790)
Net income (loss)	73,785	(299,091)	(522,135)	(1,124,428)
Preferred stock:				
Series B convertible preferred stock contractual dividends	(85,558)	(85,559)	(256,674)	(256,674)
Net income (loss) attributable to common stockholders	\$ (11,773)	\$ (384,650)	\$ (778,809)	\$ (1,381,102)
Per share data:				
Net loss – basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)
Series B convertible preferred stock contractual dividends	(0.00)	(0.00)	(0.00)	(0.00)
Net income (loss) attributable to common stockholders - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	55,251,113	54,462,285	55,056,061	54,307,427

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount		
Balances, July 1, 2023	6,500	\$ 650,000	517,359	\$ 517	55,521,804	\$ 55,522	\$ 37,179,719	1,179,212	\$ (3,419,715)	\$ (37,387,571)	\$ (3,571,528)
Stock-based compensation	-	-	-	-	-	-	211,411	-	-	-	211,411
Common shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Net loss	-	-	-	-	-	-	-	-	-	(299,091)	(299,091)
Balances, September 30, 2023	6,500	\$ 650,000	517,359	\$ 517	55,662,980	\$ 55,663	\$ 37,414,989	1,179,212	\$ (3,419,715)	\$ (37,772,220)	\$ (3,720,766)
Balances, July 1, 2024	6,500	\$ 650,000	517,359	\$ 517	56,265,776	\$ 56,266	\$ 38,239,260	1,179,212	\$ (3,419,715)	\$ (39,273,967)	\$ (4,397,639)
Stock-based compensation	-	-	-	-	-	-	162,416	-	-	-	162,416
Common Shares issued for previously accrued compensation	-	-	-	-	184,616	184	23,816	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(85,558)	(85,558)
Reacquisition of embedded conversion feature related to extinguishment of convertible notes payable	-	-	-	-	-	-	(129,412)	-	-	-	(129,412)
Warrants issued to holders of Series B preferred stock	-	-	-	-	-	-	23,232	-	-	-	23,232
Net income	-	-	-	-	-	-	-	-	-	73,785	73,785
Balances, September 30, 2024	6,500	\$ 650,000	517,359	\$ 517	56,450,392	\$ 56,450	\$ 38,319,312	1,179,212	\$ (3,419,715)	\$ (39,285,740)	\$ (4,329,176)

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount		
Balances, January 1, 2023	6,500	\$ 650,000	517,359	\$ 517	55,239,452	\$ 55,240	\$ 36,721,616	1,179,212	\$ (3,419,715)	\$ (36,391,118)	\$ (3,033,460)
Stock-based compensation, including options	-	-	-	-	282,352	282	669,514	-	-	-	669,796
Common shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(256,674)	(256,674)
Net loss	-	-	-	-	-	-	-	-	-	(1,124,428)	(1,124,428)
Balances, September 30, 2023	6,500	\$ 650,000	517,359	\$ 517	55,662,980	\$ 55,663	\$ 37,414,989	1,179,212	\$ (3,419,715)	\$ (37,772,220)	\$ (3,720,766)
Balances, January 1, 2024	6,500	\$ 650,000	517,359	\$ 517	55,862,980	\$ 55,863	\$ 37,864,102	1,179,212	\$ (3,419,715)	\$ (38,506,931)	\$ (4,006,164)
Stock-based compensation, including options	-	-	-	-	402,796	403	537,574	-	-	-	537,977
Common Shares issued for previously accrued compensation	-	-	-	-	184,616	184	23,816	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(256,674)	(256,674)
Reacquisition of embedded conversion feature related to extinguishment of convertible notes payable	-	-	-	-	-	-	(129,412)	-	-	-	(129,412)
Warrants issued to holders of Series B preferred stock	-	-	-	-	-	-	23,232	-	-	-	23,232
Net loss	-	-	-	-	-	-	-	-	-	(522,135)	(522,135)
Balances, September 30, 2024	6,500	\$ 650,000	517,359	\$ 517	56,450,392	\$ 56,450	\$ 38,319,312	1,179,212	\$ (3,419,715)	\$ (39,285,740)	\$ (4,329,176)

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

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

	For the Nine Months Ended	
	September 30	
	2024	2023
Cash flows from operating activities		
Net loss	\$ (522,135)	\$ (1,124,428)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	241,963	174,616
Stock-based compensation	561,978	693,796
Amortization of debt discount	109,430	12,990
Amortization of operating lease right of use asset	74,189	68,836
Reclassification of accounts receivable to other assets	-	427,727
Changes in operating assets and liabilities:		
Accounts receivable	(349,282)	(538,322)
Inventories	(244,874)	48,989
Prepaid expenses and other current assets	22,921	(39,838)
Accounts payable	541,895	195,454
Accrued expenses and other current liabilities	(169,848)	(48,663)
Operating Lease Liabilities	(80,446)	(72,651)
Net cash provided by (used in) operating activities	189,040	(201,494)
Cash flows from investing activities		
Capital expenditures	(39,656)	(55,881)
Software and website development costs	-	(254,088)
Acquisition of assets	(55,000)	-
Net cash used in investing activities	(94,656)	(309,969)
Net increase (decrease) in cash	94,384	(511,463)
Cash and cash equivalents - beginning of period	567,959	1,041,766
Cash and cash equivalents - end of period	\$ 662,343	\$ 530,303
Cash paid for:		
Interest	\$ 115,500	\$ 115,500
Non-cash investing and financing activities:		
Accrual of contractual dividends on Series B convertible preferred stock	\$ 256,674	\$ 256,674
Common stock issued to satisfy accrued directors' fees	\$ 72,000	\$ 72,000
Options issued to satisfy accrued directors' fees	\$ 120,000	\$ 120,000
Extinguishment of convertible notes payable	\$ (2,090,571)	\$ -
Reissuance of convertible notes payable	\$ 2,200,000	\$ -
Warrants issued as debt discount in connection with notes payable	\$ 23,232	\$ -
Reacquisition of embedded conversion feature related to extinguishment of convertible notes payable	\$ (129,412)	\$ -

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. Organization and Basis of Presentation

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

2. Liquidity and Capital Resources

The Company’s working capital deficiency was \$2.6 million and the stockholder deficiency was \$4.3 million as of September 30, 2024. For the nine months ended September 30, 2024, the Company had a net loss of \$522,000 but generated net cash from operating activities of \$189,000. As of September 30, 2024, the Company had cash and cash equivalents totaling \$662,000.

On September 30, 2024, the Company extended the maturity date of the Convertible Notes to April 20, 2026, which reduced its current obligations as of September 30, 2024. The primary component of the Company’s remaining current obligations is the accrued dividends totaling \$3.0 million to the holders of the Series B Preferred shares. The dividends continue to accrue as Company is restricted from paying dividends if there is no surplus in equity per Delaware law. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company’s discretion, when allowable under Delaware law.

The Company experienced improvement in cash from operations during the first nine months of 2024 and anticipates further improvement as (i) the Company expects to receive rebates of \$275,000 during the fourth quarter of 2024 for purchases made during the second and third quarters of 2024 and (ii) the Company has required deposits from and/or shortened the billing cycle for the new partners to minimize the working capital required to fund the growth in revenues. Therefore, the Company is anticipating an improvement in cash from operations and cash balances during the fourth quarter 2024.

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

Accordingly, the accompanying unaudited 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 unaudited consolidated financial statements do not necessarily represent realizable or settlement values. The unaudited condensed 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 unaudited consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV, its wholly-owned subsidiaries. ION Holding NV and ION Belgium NV are inactive subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited 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 unaudited consolidated financial statements and the reported amounts of revenues and expenses

during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include reserves related to accounts receivable, the net realizable value of inventory, the recoverability and useful lives of long-lived assets and website development costs, the valuation allowance related to deferred tax assets, the valuation of equity instruments, debt discounts and contingencies.

Property and Equipment, net

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

Risks and Uncertainties

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

Inflation Reduction Act Excise Tax: On August 16, 2022, the Inflation Reduction Act of 2022 (the "IR Act") was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its stockholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the "Treasury") has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax. Any share redemption or other share repurchase that occurs after December 31, 2022, in connection with a Business Combination, extension vote or otherwise, may be subject to the excise tax. Whether and to what extent the Company would be subject to the excise tax in connection with a Business Combination, extension vote or otherwise will depend on a number of factors, including (i) the fair market value of the redemptions and repurchases in connection with a Business Combination, extension or otherwise, (ii) the structure of a Business Combination, (iii) the nature and amount of any "PIPE" or other equity issuances in connection with a Business Combination (or otherwise issued not in connection with a Business Combination but issued within the same taxable year of a Business Combination) and (iv) the content of regulations and other guidance from the Treasury. In addition, because the excise tax would be payable by the Company and not by the redeeming stockholder, the mechanics of any required payment of the excise tax have not been determined. The foregoing could reduce the cash available on hand. The IR Act had limited to no impact on the results of operations and cashflows during the nine months ended September 30, 2024 nor the financial condition as of September 30, 2024.

Recently Issued Accounting Pronouncements

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

In November 2024, the Financial Accounting Standards Board ("FASB") issued ASU 2024-03, Income Statement—Reporting Comprehensive Income (Topic 220) Disaggregation of Income Statement Expenses ("ASU 2024-03"), to enhance the transparency and decision usefulness of financial information presented in the income statement by requiring disaggregated

information about certain income statement expense line items. ASU 2024-03 is effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. The Company has not adopted ASU 2024-03 and does not know the impact it will have on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740) Improvements to Income Tax Disclosures (“ASU 2023-09”), to enhance the transparency and decision usefulness of income tax disclosures by requiring disaggregated information about an entity’s effective tax rate reconciliation, as well as information on taxes paid. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. Interim disclosures are not impacted by this update. The Company has not adopted ASU 2023-09 and does not know the impact it will have on its consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280) Improvements to Segment Disclosures (“ASU 2023-07”), to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company has not adopted ASU 2023-07 and does not know the impact it will have on its consolidated financial statements and related disclosures.

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

Debt Discounts

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

Revenue Recognition

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

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

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

The Company has determined that there is one performance obligation, which is the shipment and delivery of the product; this performance obligation is transferred at a discrete point in time. The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for the product or service. For all customers, revenue is recognized at a point-in-time (at the time the medication is shipped or at the time the fulfillment or other service is performed) based on the agreed upon terms with each customer when customer has control. The Company defers revenue when cash has been received from the

customer, but shipment has not yet occurred. Such amounts are reflected as deferred revenues within accrued expenses in the accompanying consolidated financial statements.

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the Company for partner services are either prepaid by the customer or paid by check or electronic funds transfer upon receipt of a daily, weekly, bimonthly or monthly invoice. The Company extends terms to some partner services customers ranging from 7 to 30 days.

The Company receives upfront payments to offset set up costs related to new partner services contracts, which may include engineering time, setting up workflow, and purchasing computer equipment for a dedicated processing station. The setup costs are incurred to generate and/or enhance resources that will be used to satisfy performance obligations of the customer in the future through the services provided via the contract entered into with the customer. As such, the set up costs are recorded as deferred revenue and recognized over the term of the contract with the customer. The Company had \$1,250 and \$12,500 of these costs included in the deferred revenue balance at September 30, 2024 and December 31, 2023, respectively.

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

Disaggregation of Revenue

Net sales are primarily generated through the sale of over-the-counter medication, prescription medication and medical devices (i) sold directly to consumers through the Company’s website and call center (“B2C”) and (ii) through fulfillment and other services provided to other healthcare providers and manufacturers (“Partner Services”). The following table summarizes total net sales for the three and nine months ended September 30, 2024 and 2023.

	For the three months ended September 30		For the nine months ended September 30	
	2024	2023	2024	2023
B2C Sales	\$3,320,154	\$3,222,116	\$10,287,725	\$10,376,169
Partner Services Sales	5,684,609	1,541,850	9,608,126	4,986,530
Other Sales	6,400	4,003	15,871	8,776
Total Net Sales	<u>\$9,011,163</u>	<u>\$4,767,969</u>	<u>\$19,911,722</u>	<u>\$15,371,475</u>

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company (i) has received customer deposits from the customer but has not yet provided the fulfillment services and (ii) has received an upfront payment from the customer to cover set up costs including equipment and engineering resources. The Company had total contract liabilities of \$134,381 and \$80,125 recorded in accrued expenses as of September 30, 2024 and December 31, 2023, respectively, which were comprised of (i) customer deposits of \$133,131 and \$67,625 as of September 30, 2024 and December 31, 2023, respectively, which represented refundable customer deposits that were recorded as deferred revenue and (ii) deferred revenue of \$1,250 and \$12,500 as of September 30, 2024 and December 31, 2023, respectively, related to upfront payments received from customers that are being amortized over the term of the contract. The Company recognized revenue of \$3,750 and \$11,250 during the three and nine months ended September 30, 2024, respectively, related to the amortization of the upfront payments and \$14,333 during the nine months ended September 30, 2023. Other than accounts receivable, there were no contract assets as of September 30, 2024 and December 31, 2023.

Net Loss Per Share of Common Stock

Basic net loss per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common

stock. Potentially dilutive securities are excluded from the computation of net earnings per share if their inclusion would be anti-dilutive and consist of the following:

	September 30,	
	2024	2023
Options	24,604,242	21,523,479
Warrants	1,240,127	764,000
Series B Convertible Preferred Stock	7,656,914	7,656,914
Series C Redeemable Convertible Preferred Stock	9,285,715	6,500,000
Convertible Notes Payable	25,882,359	17,708,338
Total potentially dilutive shares	<u>68,669,357</u>	<u>54,152,731</u>

* The amount of Series C Convertible Redeemable Preferred Stock as if converted shares of 9,285,715 and 6,500,000 were calculated based on a conversion price of 80% of the 30 day weighted average closing price of \$0.09 and \$0.125 as of September 30, 2024 and 2023, respectively.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30,	December 31,
	2024	2023
Salaries and Benefits	\$ 72,534	\$ 197,256
Sales Tax Payable	152,727	179,970
Accounting	108,361	136,200
Deferred Revenue	134,381	82,377
Accrued Corporate & Property Taxes	49,220	71,776
Accrued Director Fees	64,000	64,000
Advertising	29,950	38,090
Accrued Legal	37,080	37,080
Accrued Interest	-	28,435
Accrued Shipping	7,625	-
Other	11,806	448
	<u>\$ 667,684</u>	<u>\$ 835,632</u>

5. Notes Payable

Notes payable consisted of the following:

	September 30,	December 31,
	2024	2023
Convertible Promissory Note	\$ 2,200,000	\$ 2,200,000
Less debt discount	-	(218,859)
Total debt	<u>2,200,000</u>	<u>1,981,141</u>
Less current portion	-	-
Long-term debt, less current portion	<u>\$ 2,200,000</u>	<u>\$ 1,981,141</u>

Convertible Promissory Notes

The Company executed convertible note purchase agreements (the “Convertible Purchase Agreements”) and a security agreement, as amended, (the “Convertible Security Agreement”) on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the “Convertible Notes”) (collectively the “Convertible Note Agreements”). Under the terms of the Convertible Notes, the Company borrowed an aggregate of \$2,200,000 from a group of eleven investors. The Convertible Notes bear interest on the unpaid principal balance until the full amount of principal has been paid or converted to common shares at a fixed rate equal to 7% per annum. Under the terms of the Convertible Notes, the Company has agreed to make quarterly payments of accrued interest of \$38,500 on the last day of every calendar quarter beginning on March 31, 2020. Effective September 30, 2024, the Company entered into amendments to the Convertible Purchase Agreements (the “Fourth Amendment to the Convertible Notes”) and issued amended and restated Convertible Promissory Notes (the “Amended Notes”) to the Convertible Note investors, whereby the maturity dates of the notes were extended from April 30, 2025 to April 30, 2026.

As part of the agreement to extend the maturity date, the Company agreed to change the existing conversion rates from \$0.11 per share to \$0.085 per share. An incremental 5,882,353 shares of common stock are issuable at conversion of the Convertible Notes due to the reduction in the conversion rate as compared to the original terms.

The Company determined that the debt was substantially different due to the change in the fair value of the embedded conversion feature. As a result, the amendment was accounted for as an extinguishment of debt per ASC 470. To affect the extinguishment per ASC 470, the Company (i) removed the convertible notes balance of \$2,200,000 and the remaining debt discount prior to the amendment of \$109,429, (ii) rebooked the convertible notes for \$2,200,000, which was the approximate fair value of the convertible notes after the amendment, (iii) recognized the intrinsic value of the embedded conversion option of \$129,411 as a reacquisition of the option which resulted in a reduction of paid-in capital, (iv) recorded the fair value of warrants issued to the holders of the Series B convertible preferred stock (see below) of \$23,232 as an increase in paid-in capital and (v) recorded a loss on the extinguishment of the notes payable of \$3,249.

The principal amount and all unpaid accrued interest on the Convertible Notes are payable on April 30, 2026. As of September 30, 2024, the outstanding principal balance on the Convertible Promissory Notes was \$2,200,000, and accrued interest was \$0.

On September 30, 2024, the Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Amendment to the Convertible Notes. The waiver extended the limitation on indebtedness of \$3,000,000 to April 30, 2026. As part of the agreement to extend the waiver of the debt limitation to April 30, 2026 and maintain the limitation on indebtedness at \$3,000,000, the Series B Preferred shareholders were issued warrants to purchase 300,000 shares of common stock at an exercise price equal to \$0.085 per share. The 30-day weighted average closing share price on the grant date was \$0.09. The warrants have a term of five years and an aggregate grant date value of \$23,232 which was recognized as an increase in paid-in capital.

At any time prior to the maturity date, each purchaser may convert their Convertible Note balance, in whole or in part, into shares of the Company’s common stock at conversion rate of \$0.085 per share (the “Conversion Rate. The Company may initiate the conversion of the Convertible Notes at any time prior to the maturity date in the event that the 60-day weighted average price of a share of the Company’s common stock as reported on OTC Markets exceeds \$0.30 per share. The Conversion Price is subject to adjustment in the event of future dilutive transactions.

Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA holds \$1,050,000 of the Convertible Note balance. The Timothy E. Reilly IRA is owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company’s outstanding shares of common stock. As such, the Millennium note is a related party transaction.

6. Operating Leases

The Company is a party to a lease agreement for office and storage space for its headquarters in Florence, Kentucky. On July 30, 2018, the Company entered into an amendment of the lease agreement which extended the lease for an additional five years to December 31, 2024. The amended monthly lease rate ranges between \$7,955 and \$9,498. The Company has an option to extend the term by three years, however, the Company determined that it was not reasonably certain to exercise the

renewal option and such renewal was excluded from the operating lease right-of-use, or ROU, asset and operating lease liability recorded for this lease. See subsequent events.

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

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

Supplemental balance sheet information as of September 30, 2024 is as follows:

Operating lease right-of-use assets	\$ 278,655
Accumulated amortization	<u>(252,964)</u>
Net operating right-of-use-assets	<u>\$ 25,691</u>
Current operating lease liabilities	\$ 28,330
Noncurrent operating lease liabilities	<u>0</u>
Total operating lease liabilities	<u>\$ 28,330</u>
Weighted-average remaining lease term (years)	0.25
Weighted-average discount rate	7.0%

The aggregate future minimum lease payments for operating leases as of September 30, 2024 were as follows:

2024	<u>28,495</u>
Total gross lease payment	\$ 28,495
Less: Imputed interest	<u>(165)</u>
Total lease liabilities, reflecting present value of future minimum lease payments	<u>\$ 28,330</u>

During the three and nine months ended September 30, 2024, the Company recorded aggregate lease expense was \$41,616 and \$119,512, respectively. During the three and nine months ended September 30, 2023, the Company recorded aggregate lease expense was \$40,838 and \$112,256, respectively.

See note 11.

7. Stockholders' Deficiency

The Company is authorized to issue up to 175,000,000 shares of common stock with a par value of \$0.001 per share and 1,000,000 shares of preferred stock with a par value of \$0.001 per share.

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

OTC Market Tier Change

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

Common Stock

During the nine months ended September 30, 2024, the Company issued 587,412 shares of common stock under the 2014 Equity Incentive Plan (the “2014 Plan”) to directors of the Company for payment of their accrued noncash portion of their director fees for the fourth quarter of 2023 and the first and second quarters of 2024. The shares had an aggregate grant date value of \$72,000, which ranged between \$0.11 and \$0.13 per share, which were the 30-day weighted average closing share price on the grant dates. Of the total aggregate grant date value, \$24,000 was included in accrued expenses and other current liabilities as of December 31, 2023.

Stock-based compensation expense related to common stock issued was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled \$24,000 for the three months ended September 30, 2024 and 2023, respectively, and \$72,000 for the nine months ended September 30, 2024 and 2023, respectively. Stock-based compensation of \$24,000 is included in accrued expenses and other liabilities as of September 30, 2024.

Preferred Stock

Series B Preferred Stock

As of September 30, 2024 and December 31, 2023, the Company had accrued contractual dividends of \$2,994,538 and \$2,737,863, respectively, related to the Series B Preferred Stock.

Stock Options

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the three and nine months ended September 30, 2024 and 2023, the Company used the following weighted average assumptions:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2024	2023	2024	2023
Risk-free interest rate	4.24%	3.93%	3.84% to 4.35%	3.82% to 3.93%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	128%	131%	128% to 131%	128% to 131%
Weighted average expected life (contractual term) in years	5.0	5.0	5.0 to 6.0	5.0 to 6.0

Grants

The weighted average fair value of the stock options granted during the nine months ended September 30, 2024 was \$0.13.

During the nine months ended September 30, 2024, the Company granted stock options to purchase an aggregate 1,131,316 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director’s fees. The options had an exercise price ranging between \$0.11 and \$0.13 per share and had an aggregate grant date value of \$120,000, of which \$40,000 was included in accrued expenses as other liabilities as of December 31, 2023.

During the nine months ended September 30, 2024, the Company granted stock options to two executives to purchase an aggregate of 7,800,000 shares of common stock under the 2014 Plan at an exercise price of \$0.13 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The total options granted included options to purchase an aggregate of 6,000,000 shares of common stock that were issued to replace options previously issued to executives in 2021, 2022 and 2023. The new and reissued options had an aggregate grant date value of \$599,088, vest over a three-year period and have a term of ten years. The issuance of the replacement options was treated as a modification of the original options granted. The grant date value of the replacement options was the total of the remaining unamortized grant date value of the original options of \$296,582 plus the incremental value of the new options over the value of the original options prior to the grant date of \$91,160. The grant date value of the new options will be amortized over the vesting period of the new options.

Stock-based compensation expense related to stock options was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled \$162,417 and \$490,407 for the three and nine months ended September 30, 2024, respectively, and \$211,411 and \$621,796 for the three and nine months ended September 30, 2023, respectively. Of the total expense, \$40,000 was included in accrued expenses and other liabilities as of September 30, 2024 and 2023.

As of September 30, 2024, stock-based compensation related to unvested stock options of \$751,407 remains unamortized which is being amortized over the weighted average remaining period of 1.8 years.

Summary

A summary of the stock option activity during the nine months ended September 30, 2024 is presented below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2024	21,773,925	\$ 0.17		
Granted	8,931,316	0.13		
Exercised/Forfeited	-	-		
Cancelled	(6,100,999)	0.17		
Outstanding, September 30, 2024	<u>24,604,242</u>	<u>\$ 0.16</u>	<u>7.5</u>	<u>\$ -</u>
Exercisable, September 30, 2024	<u>13,837,580</u>	<u>\$ 0.17</u>	<u>6.4</u>	<u>\$ -</u>

The following table presents information related to stock options outstanding and exercisable at September 30, 2024:

Range of Exercise Price	<u>Options Outstanding</u>		<u>Options Exercisable</u>		
	<u>Weighted Average Exercise Price</u>	<u>Outstanding Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life In Years</u>	<u>Exercisable Number of Options</u>
\$0.09 - \$0.20	\$ 0.14	22,321,634	\$ 0.15	6.9	11,554,972
\$0.22 - \$0.35	\$ 0.32	2,282,608	\$ 0.32	3.8	2,282,608
\$0.09 - \$0.36	\$ 0.16	<u>24,604,242</u>	\$ 0.17	6.4	<u>13,837,580</u>

Warrants

Valuation

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

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Risk-free interest rate	3.58%	n/a	3.58%	n/a
Expected dividend yield	0.00%	n/a	0.00%	n/a
Expected volatility	126.50%	n/a	126.5%	n/a
Weighted average expected life (contractual term) in years	5.0	n/a	5.0	n/a

Grants

During nine months ended September 30, 2024, the Company issued warrants to purchase an aggregate of 300,000 shares of common stock to the holders of the Series B Preferred as part of the agreement to extend the waiver of the debt limitation. The warrants were issued at an exercise price of \$0.085 and the 30-day weighted average closing share price on the grant date was \$0.09. The warrants have a term of five years and an aggregate grant date value of \$23,232 which was recognized as a debt discount on the grant date. See Footnote 5 – Notes Payable.

There were no warrants issued during the nine months ended September 30, 2023.

There was no stock-based compensation expense related to warrants in the nine months ended September 30, 2024 and 2023. As of September 30, 2024, there was no unamortized stock-based compensation expense related to warrants.

A summary of the stock warrant activity during the nine months ended September 30, 2024 is presented below:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life In Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2024	940,127	\$ 0.12		
Granted	300,000	0.085		
Exercised	-	-		
Forfeited	-	-		
Outstanding, September 30, 2024	<u>1,240,127</u>	<u>\$ 0.11</u>	<u>2.4</u>	<u>\$ -</u>
Exercisable, September 30, 2024	<u>1,240,127</u>	<u>\$ 0.11</u>	<u>2.4</u>	<u>\$ -</u>

The following table presents information related to stock warrants at September 30, 2024:

Range of Exercise Price	Warrants Outstanding		Warrants Exercisable		
	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
\$0.085 - \$0.14	\$ 0.11	1,240,127	\$ 0.11	2.4	1,240,127

8. Commitments and Contingent Liabilities

Employment Agreement

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts (the “Employment Agreements”). The terms of the Employment Agreement include a term of one year beginning on January 1, 2020 with an extension provision allowing for automatic one-year extensions unless the Company or the employee provides advanced written notice of non-renewal, the titles and positions of Chief Executive Officer and Chief Financial Officer, respectively, an initial base salary of \$128,000 and \$124,000 per year, respectively, subject to certain bonus and severance provisions. Effective January 1, 2024, the Compensation Committee approved an increase in the base salaries for Mr. Peters and Mr. Seliga to \$174,000 and \$170,000 per year, respectively. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

On January 17, 2024, Mr. Peters and Mr. Seliga were granted options to purchase 4,200,000 and 3,600,000 shares of common stock, respectively, under the 2014 Plan at an exercise price of \$0.13 per share (which was the 30-day weighted average closing price on the grant date) for an aggregate grant date value of \$599,088. The options vest over a three-year period and have a term of ten years. The options granted included options to purchase an aggregate of 6,000,000 shares of common stock that were issued to replace options previously issued to executives in 2021, 2022 and 2023. See Note 7.

Litigation

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

On March 31, 2023, a class action complaint was filed in the United States District Court, Southern District of California against the Company (Shahnaz Zarif, individually and on behalf of others similarly situated, Plaintiff, v. Hwareh.com, Inc., Defendant). The Complaint alleges that commonplace technologies deployed on the Company’s website conducted the unauthorized interception, collection, recording and dissemination of communications and data in violation of the Federal Wiretap Act, 18 U.S.C. Section 2510 et seq, the California Invasion of Privacy Act, Cal. Pen. Code Section 631; the California Confidentiality of Medical Information Act, Cal. Civ. Code Section 56, et seq; and the California Consumer Privacy Act Cal. Civ. Code Section 1798.100, et seq. The Plaintiff seeks to certify several classes of similarly situated persons and is suing for, among other things, injunctive relief, statutory monetary damages and attorneys’ fees. After retaining local counsel, on May 22, 2023, the Company responded to the complaint by filing a motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the complaint for failure to state a claim and lack of personal jurisdiction. On June 12, 2023, Plaintiff filed an amended complaint alleging the same claims in lieu of an opposition to the Company’s motions. On July 10, 2023, the Company filed a second motion to transfer venue to the Eastern District of Kentucky and a motion to dismiss the amended complaint for failure to state a claim and lack of personal jurisdiction. On July 21, 2023, the Plaintiff responded with an opposition to the Company’s motions to which the Company replied on August 14, 2023. On August 15, 2023, the court granted the Company’s motion dismissing the case, but granting leave to amend the complaint. On September 4, 2023, the Plaintiff filed a Second Amended Complaint, which the Company moved to dismiss on September 18, 2023. Plaintiff opposed the Company’s

motion on October 30, 2023, to which the Company replied on November 6, 2023. On March 25, 2024, the Judge granted the Company's Motion to Dismiss all claims in the Second Amended Complaint on the basis that the Plaintiff had again failed to adequately allege personal jurisdiction over the Company and granting Plaintiff another chance to amend the complaint. The Plaintiff filed a Third Amended Complaint on April 19, 2024. The Company has now moved to dismiss the Third Amended Complaint for failure to state a claim and lack of personal jurisdiction, that motion is still pending. The Company believes the Complaint is without merit and intends to contest this matter vigorously.

9. Concentrations

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

Two customers represented 43% and 6% of total sales during the three months ended September 30, 2024 and two customers represented 23% and 6% of total sales during the nine months ended September 30, 2024. Three customers represented 9%, 8% and 5% of total sales during the three months ended September 30, 2023 and 9%, 7% and 5% of total sales during the nine months ended September 30, 2023.

Two customers represented 30% and 23% of the accounts receivable balance (excluding the contract liabilities) as of September 30, 2024. Three customers represented 25%, 24%, and 22% of the accounts receivable balance as of December 31, 2023. The customers noted above are related to Partner Services sales.

Three suppliers represented 52%, 24% and 13% of total inventory purchases during the three months ended September 30, 2024 and three suppliers represented 33%, 32% and 15% of total inventory purchases during the nine months ended September 30, 2024. Three suppliers represented 33%, 32% and 11% of total inventory purchases during the three months ended September 30, 2023 and three suppliers represented 36%, 29% and 10% of total inventory purchases during the nine months ended September 30, 2023.

Two suppliers represented 43% and 21% of the accounts payable balance at September 30, 2024. Two vendors represented 26% and 16% of the accounts payable balance as of December 31, 2023.

10. Related Party Transactions

On January 12, 2024, the Company entered an Asset Purchase Agreement to purchase certain assets for \$55,000 in cash. The transaction was a related party transaction as the seller is Mark Scott who is a >5% shareholder of the Company.

11. Subsequent Events

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

Issuance of Common Stock and Options to Directors

On October 11, 2024, the Company issued an aggregate of 342,856 shares of common stock and options to purchase 665,736 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees for the third quarter of 2024. The shares had an aggregate grant date value of \$24,000 and were valued at \$0.07 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options had an exercise price of \$0.07 per share and had a grant date value of \$40,000. The aggregate amount of the grant date value of the common stock and options which totaled \$64,000 was included in accrued expenses as other liabilities as of September 30, 2024.

Extension of Operating Lease

Effective October 31, 2024, the Company entered into an amendment of the lease agreement (see Note 6) related to its office and storage space which extended the lease for an additional five years to December 31, 2029. The amended monthly

lease rate ranges between \$18,640 and \$21,086. The Company has an option to extend the term by three years, however, the Company determined that it was not reasonably certain it will exercise the renewal option. The amendment of the lease will be accounted for under ASC 842 "Leases".