HealthWarehouse.com, Inc.
Form 10-K
April 15, 2014
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, 2013

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

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 July 1, 2013 of $1.66, as reported on the OTC Pink market tier was approximately $22,694,000. 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 26,550,380 shares of Common Stock outstanding as of April 4, 2014.

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 statemen 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 for the past year 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

We are a Verified Internet Pharmacy Practice Sites ("VIPPS") accredited retail mail-order pharmacy and healthcare e-commerce company that sells discounted generic and brand name prescription drugs, as well as, over-the-counter (OTC) medical products. Our web address is http://www.healthwarehouse.com. At present, we sell:

a range of prescription drugs both brand name and generic (we are a licensed mail-order pharmacy for sales to 50 states and the District of Columbia);

diabetic supplies including glucometers, lancets, syringes and test strips;

OTC medications covering a range of conditions from allergy and sinus to pain and fever to smoking cessation aids;

home medical supplies including incontinence supplies, first aid kits and mobility aids; and

diet and nutritional products including supplements, weight loss aids, and vitamins and minerals.

pet medications

Our objectives are 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 medications. In addition, we work with various direct primary care clinics and pharmacy benefits managers to provide their customers with 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.

Recent Developments

The Company has historically not been timely in the issuance of financial statements, beginning with the issuance of its financial statements for the year ended December 31, 2011. The directors of the Company identified material weaknesses and other deficiencies in the Company's internal controls, which the Company has previously disclosed. It was concluded that these material weaknesses and other deficiencies in the Company's internal controls primarily relate to the Company's need for additional accounting personnel with sufficient supervisory and technical expertise and the Company's lack of adequate policies, procedures and monitoring in certain areas. The directors and management of the Company continue to address these issues through the employment of financial consultants and

the implementation of new procedures. The directors and management will continue to address any remaining deficiencies through the implementation of formal policies and procedures and further integration of its operating and accounting systems. The directors also plan to pursue the employment of a permanent Chief Financial Officer to replace the previous Chief Financial Officer who resigned on April 15, 2013, as the Company's operations and liquidity improve. See Part II-Item 9A, "Controls and Procedures" for additional information.

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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, "QBHEWA."

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.

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 cash for their medications. Cash paying consumers have increased significantly since insurance co-pays are rising and high deductible plans are becoming more prevalent due to the Affordable Care Act.

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Our Online Retail Mail-Order Pharmacy

We operate a full-service retail mail-order pharmacy within our warehouse in Florence, Kentucky, near 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 retail mail-order pharmacy offers the following advantages:

Legitimacy. We have obtained 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 (VIPPS) certification, issued by the National Board of Pharmacies (NABP). 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 free of charge 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 multiple checkout options including Google Checkout.

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, we believe that we have lower costs than traditional pharmacies which allows us to provide consumers with the 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.

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 100% free standard shipping on all orders. We are prevented by law from accepting returns for any prescription medication. We received the BizRate Circle of Excellence Award in 2009, 2010

and 2011 for exceptional 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, via e-mail, 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 near 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.

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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. We work with Pharmacy Benefit Manager (PBM) partners to market to groups and self-insured businesses. In addition, we focus on providing fast, transparent filling of prescriptions and increase word of mouth marketing to consumers. 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, and Allison Medical, Inc as well as many direct manufactures like Accord, Nipro, Parmed, Lannett, Torrent, Camber and Carlsbad. 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. If a supplier, 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 model.

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 cash paying consumers. This market was estimated to be $45 billion in 2011 and continues to grow. We also work with pharmacy benefits managers (PBMs) and self-insured employers whose employees purchase prescription medications through us.

Competition

The market for prescription and OTC health products is intensely competitive and highly fragmented. However, there are fewer competitors focusing on the cash 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.

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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.

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"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.

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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.

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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 (VIPPS), as a model for self-regulation for online pharmacies. The Company has been certified by VIPPS since 2008.

Employees

As of March 31, 2014, we employed 27 full-time employees and 8 part-time employees. The Company at March 31, 2014, had 5 non-contractual laborers. 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.

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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, 2013 and 2012. 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, 2013, our internal controls over financial reporting were not effective. As of December 31, 2013, management has concluded that, while it has remedied certain previously reported weaknesses, material weaknesses continue to exist and the internal control over financial reporting has improved but was still not effective. The specific material weaknesses identified by the directors and management are described in Part II—Item 9A, "Controls and Procedures".

Due to financial constraints, we have not fully developed or implemented a remediation plan to address the material weaknesses and other deficiencies. The directors and management of the Company continue to address these issues through the employment of financial consultants and the implementation of new procedures. The directors and management will continue to address any remaining deficiencies through the implementation of formal policies and procedures and further integration of its operating and accounting systems. The directors also plan to pursue the employment of a permanent Chief Financial Officer to replace the previous Chief Financial Officer who resigned on April 15, 2013, as the Company's operations and liquidity improve.

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.

Our failure to timely file our Form 10-K for the year ended December 31, 2012 and our Form 10-Q's for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 with the SEC limits our access to the public securities markets, and if we fail to make timely filings in the future we could be removed from the OTCQB Market Tier, which could adversely affect the liquidity of our Common Stock.

We did not file Form 10-K's for the years ended December 31, 2012 and 2011, nor the Form 10-Q's for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 with the SEC on time. As a consequence, we will be ineligible to use short form registration statements, such as Form S-3, to register securities for sale until we have been timely in filing our periodic reports under the Exchange Act for twelve months. Although we still may register securities using Form S-1, the extra time and expense of using this form is likely to increase our cost of raising capital in the public markets and may limit our ability to respond quickly to market opportunities.

The delay in filing our Form 10-K for the year ended December 31, 2011 resulted in the loss of our quotation privileges, on the OTCQB market tier and the liquidity for our Common Stock could be adversely affected by reducing the ability or willingness of broker-dealers to make a market in or otherwise sell our shares and the ability of our stockholders to sell their shares in the secondary market. Our Common Stock currently trades on the OTC Pink market tier. Furthermore, on or about April 16, 2012, we lost our Rule 144(i)(2) exemption which prevents the sale of restricted stock into the public market. This could adversely affect our stockholders ability to sell our shares.

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 $5,489,892 and $5,574,775 for the years ended December 31, 2013 and 2012, 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, 2013 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 audited financial statements as of December 31, 2013 and for the years ended December 31, 2013 and 2012 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 2014, and possibly longer. As a result, investors may lose all or a part of their investment.

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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.

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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.

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;

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- 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 Fiscal Year 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.

We have claims and lawsuits against us that may result in adverse outcomes.

We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. Although management currently believes resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial statements, the litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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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.

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.

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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.

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.

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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.

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.

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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. See "If we fail to remain current in our reporting requirements, we could be removed from the OTCQB Market Tier, which would limit the ability of broker-dealers to sell our securities and the ability of our stockholders to sell their securities in the secondary market." (Since the Company failed to file the SEC Form 10-K for the fiscal year ended December 31, 2011 on a timely basis, our Common Stock has been trading on the OTC Pink 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 OTC Pink Limited Market tier, our stockholders may find it difficult to obtain accurate quotations of our Common Stock and may 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 2013, the high and low sale prices of our Common Stock were $4.00 and $0.13, respectively. On December 31, 2013, the closing price of our Common Stock was $0.35. 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;

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.

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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.

If we fail to become current in our reporting requirements, we could remain on the OTC Pink market tier, which would limit the ability of broker-dealers to sell our securities and the ability of our stockholders to sell their securities in the secondary market.

Companies trading on the OTCQB Market Tier must be reporting issuers under Section 12 of the Exchange Act, and must be current in their reports under Section 13 of the Exchange Act, in order to maintain price quotation privileges on the OTCQB Market Tier. If we fail to become current in our reporting requirements, we could remain on the OTC Pink market tier. As a result, the market liquidity for our securities could be adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of our stockholders to sell their securities in the secondary market. See “We must comply with Section 404 of the Sarbanes-Oxley Act, which requires us to document and test our internal controls over financial reporting. Any delays or difficulty in satisfying these requirements could adversely affect our future stock price.”

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 OTC Pink market tier of the OTC Markets Group Inc. (formerly the Pink Sheets). 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 57.0% of our outstanding voting securities as of December 31, 2013. 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.

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.

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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 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. As disclosed in Footnote #14 - Subsequent Events, the Company no longer has operations at this facility and we are currently in discussions with the Landlord regarding termination of the lease related to the building.

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.

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 have requested that, among other things, the court require us to permit the exercise of the 233,332 options. Plaintiffs have also provided an expert report indicating damages of $2.086 million. Also named as defendants were two individuals, Michael Peppel and Gary Singer, whom Plaintiffs claim acted as agents for us in connection with our purchase of shares of our Common Stock from Plaintiffs in September 2011. On July 19, 2012, the Company and Mr. Peppel filed an answer and counterclaim for breach of contract, alleging that Plaintiffs breached consulting agreements with the Company and undertook a series of actions that damaged and hurt the Company. On July 24, 2012, the Company filed a complaint against Dennis Smith for breach of contract in the Hamilton County, Ohio Court of Common Pleas, which action was consolidated with the earlier case. Plaintiffs filed an answer in response to the counterclaim, and Dennis Smith filed an answer in response to the Company's complaint. On April 26, 2013, Plaintiffs dismissed Mr. Singer from the lawsuit. On March 24, 2014, all parties filed motions for summary judgment: (i) the Company and Mr. Peppel moved for summary judgment on all claims asserted by Plaintiffs, (ii) Dennis B. Smith and Counterclaim Defendants and Plaintiffs moved for summary judgment on the Company's claims for breach of contract, and (iii) Plaintiffs moved for partial summary judgment on their claim for declaratory relief that the Company breached the terms of a stock option agreement. Trial of the case is currently scheduled for April 22, 2014. We deny all of the Plaintiffs' claims and intend to contest this matter vigorously.

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.

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On April 23, 2013, our Board of Directors formed an Independent Committee, chaired by Youssef Bennani, a director and Chairman of our Audit Committee, with the exclusive power and plenary authority to investigate, review, and evaluate claims and demands made in certain letters we have received. Since March 1, 2013, we have received three letters from stockholders alleging certain breaches of fiduciary duties by our directors and demanding that we commence investigations of the alleged conduct. On March 1, 2013, we received a letter on behalf of the holders of our Series B Preferred Stock ("Preferred Holders") alleging that a convicted felon appears to be a consultant to us, owes us money, and exercises control over us. On March 8, 2013, we received a letter on behalf of stockholder Wayne Corona alleging that two directors, Matthew Stecker and John Backus, breached their fiduciary duties and demanding that we investigate legal claims against those directors. The letter alleges that the director designee of the holders of our Series B Preferred Stock and the director designee of New Atlantic Ventures Fund III, L.P. ("NAV") acted in concert to attempt to scuttle our recent financing plan. The letter also alleged that the director designee of the Preferred Holders and the director designee of NAV sought to prevent us from paying back our lenders in 2010 and 2011. On March 18, 2013, we received a letter on behalf of the two directors denying the allegations and stating there was no proper basis for launching an investigation. On March 27, 2013, a letter on behalf of Messrs. Backus and Stecker, in their capacities as directors and stockholders, demanded that we (i) investigate alleged breaches of confidentiality and fiduciary duties by our President and CEO and two other directors in connection with the purported stockholder demand letter of Mr. Corona dated March 8, 2013, and (ii) assert related claims against those individuals. The letter also asserted that the director constituting the Independent Committee, Youssef Bennani, is subject to alleged conflicts of interest that disqualify him from serving on any proposed Independent Committee to evaluate the pending stockholder demands. The Independent Committee retained the independent law firm of Morrison & Foerster LLP to conduct the investigation and advise the Independent Committee. On November 23, 2013, the Independent Committee presented its findings and conclusions to the Board of Directors, which has resolved to take action consistent with those findings and conclusions. As a threshold matter, counsel for the Committee and the Committee itself determined that Mr. Bennani was independent and could carry out his duties and fairly evaluate the allegations in the letters. The Independent Committee concluded that it would not be in the best interests of us and our shareholders to pursue litigation stemming from the claims and assertions in the letters. The Independent Committee's conclusion was based on its analysis of the letters, available evidence, legal principles and practical considerations including its potential indemnification obligations. Among the Independent Committee's findings were: (1) the investigation demanded in the Preferred Holders' letter had already been completed and adequately resolved by the Board; (2) there was not significant evidence supporting allegations in the Corona letter that then-directors Backus and Stecker breached their fiduciary duties to us in that they "attempted to scuttle our refinancing plan or used their positions on the Board for the benefit and advantage" of particular constituencies; and (3) no evidence supported the allegation that confidential information from the Board of Directors was purposefully leaked to Mr. Corona. Our Board of Directors concurred in the Independent Committee's findings and conclusions.

On May 7, 2013, a putative stockholder derivative action was filed in the Court of Chancery of the State of Delaware against certain directors and our chief executive officer and against us, as a nominal defendant. The complaint alleges 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 seeks unspecified compensatory damages and other relief. We and the individual defendants believe that the allegations stated in the complaint are without merit and we intend to defend ourselves vigorously against the allegations. The individual director defendants filed a motion to dismiss the complaint on July 22, 2013 and filed an opening brief in support of the motion to dismiss on August 2, 2013. We joined in the motion to dismiss. Plaintiff's brief in opposition to the motion to dismiss was due on September 16, 2013. Instead of filing a brief in opposition to the motion to dismiss, on September 16, 2013, plaintiff filed an amended complaint against the same defendants alleging two claims for breach of fiduciary duty and

corporate waste and deleting the claim for entrenchment. The claims in the amended complaint arise out of allegations regarding a failure to conduct stockholder annual meetings, a failure to comply with SEC filing obligations, a lack of internal controls and unauthorized advances to a former employee and a $500,000 secured loan approved by our entire board. We and the individual defendants continue to believe the allegations are without merit and intend to vigorously defend ourselves against the allegations. On October 3, 2013, the individual director defendants moved to dismiss the amended complaint, and we joined in the motion to dismiss. Under a briefing schedule approved by the court, defendants' opening brief in support of the motion to dismiss the amended complaint was filed on November 4, 2013 and we joined in arguments A and B of defendants' opening brief on the basis of plaintiff's failure to comply with Court of Chancery Rule 23.1 and demand futility. Instead of filing an answering brief, plaintiff proposed a stipulated dismissal. 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.

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 OTC Pink Limited 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 OTCQB until about April 14, 2012 and by the OTC Pink Limited Market Tier thereafter.

Quarter	Year ended December 31, 2013		Year ended December 31, 2012	
	High	Low	High	Low
First	$ 4.00	$ 1.01	$ 7.00	$ 5.70
Second	$ 1.88	$ 0.69	$ 8.00	$ 5.70
Third	$ 1.66	$ 0.51	$ 7.15	$ 4.50
Fourth	$ 0 .95	$ 0.13	$ 5.85	$ 3.00

On December 31, 2013, the closing price of our Common Stock, as reported by the OTC Pink Limited Market Tier, was $0.35 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, 2013, there were 26,529,091 shares of our Common Stock outstanding.

Holders

As of March 17, 2014, there were approximately 193 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

On January 15, 2014, the Company issued 21,289 shares of shares of Common Stock to an employee as part of his compensation related to his service to the Company during 2013. The fair market value of the shares was $10,645 based on the closing price on the date of issuance. The issuance of these securities is exempt under Section 4(2) of Securities Act for non-public offering.

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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

We are a Verified Internet Pharmacy Practice Sites ("VIPPS") accredited retail mail-order pharmacy and healthcare e-commerce company that sells discounted generic and brand name prescription drugs, as well as, over-the-counter (OTC) medical products and surgical supplies. Our web addresses are http://www.healthwarehouse.com and http://www.hocks.com. At present, we sell:

a range of prescription drugs (we are licensed as a mail-order pharmacy for sales to all 50 states and the District of Columbia);

diabetic supplies including glucometers, lancets, syringes and test strips;

OTC medications covering a range of conditions from allergy and sinus to pain and fever to smoking cessation aids;

home medical supplies including incontinence supplies, first aid kits and mobility aids; and

diet and nutritional products including supplements, weight loss aids, and vitamins and minerals.

Our objectives are 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 and prescription medications and products. We intend to continue to expand our product line as our business grows.

Results of Operations

For The Year Ended December 31, 2013 Compared to The Year Ended December 31, 2012

	For year ended Ended December 31, 2013	% of Revenue	For year ended Ended December 31, 2012	% of Revenue
Net sales	$ 10,233,112	100.0 %	$ 11,081,429	100.0 %
Cost of sales	5,111,737	50.0 %	5,913,977	53.4 %

Gross profit	5,121,375	50.0	%	5,167,452	46.6	%
Selling, general & administrative	7,554,953	73.8	%	9,261,523	83.5	%
Impairment of Intangible Assets	-	0.0	%	396,298	3.6	%
Loss from operations	(2,433,578)	(23.8	%)	(4,490,369)	(40.5	%)
Other income	(2,792,900)	(27.3	%)	11,475	0.1	%
Interest expense	(263,413)	(2.6	%)	(1,095,881)	(9.9	%)
Net loss	$ (5,489,891)	(53.6	%)	$ (5,574,775)	(50.3	%)

Net Sales

For year ended December 31, 2013	% Change	$ Change	For year ended December 31, 2012
$ 10,233,112	-7.7 %	$ (848,317)	$ 11,081,429

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Net sales for the year ended December 31, 2013 declined to $10,233,112 from $11,081,429, a decrease of $848,317, or 7.7% due to the reduction in advertising and cash flow constraints. We reduced our advertising expense by $585,480 during 2013 and due to cash flow constraints were unable to have adequate inventories to support the sales volumes. This prompted negative customer reviews that contributed to the decline in sales. Management has taken steps to narrow its product line, particularly on over the counter products, and set new stocking levels for these items to improve order fill rates. In addition, customer support personnel are responsible for proactively calling 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.

Cost of Sales and Gross Margin

	For year ended December 31, 2013	% Change	$ Change	For year ended December 31, 2012
Cost of sales	$5,111,737	(13.6%)	(802,240)	$5,913,977
Gross margin $	$5,121,375	(0.9%)	(46,077)	$5,167,452
Gross margin %	50.0%	3.4%		46.6%

Cost of sales were $5,111,737 for the year ended December 31, 2013 as compared to $5,913,977 for the year ended December 31, 2012, a decrease of $802,240, or 13.6%, 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 46.6% for the year ended December 31, 2012 to 50.0% for the year ended December 31, 2013, primarily due to the improved cost discussed above and elimination of unprofitable business relations. Management will continue to focus efforts on promoting and offering its higher margin product lines as part of the narrowing of its product offering.

Selling, General and Administrative Expenses

	For year ended December 31, 2013	% Change	$ Change	For year ended December 31, 2012
S,G&A	$7,554,953	-18.4%	($1,706,570)	$9,261,523
% of sales	73.8%			83.6%

Selling, general and administrative expenses totaled $7,554,953 for the year ended December 31, 2013 compared to $9,261,523 for the year ended December 31, 2012, a decrease of $1,706,570, or 18.4%. The year ended December 31, 2013 expense decreases included (a) a decrease in advertising expense of $585,480 (primarily due to Google ads being

discontinued related to cash flow constraints); (b) a reduction in salary expense of $574,578 (primarily due to a reduction in headcount and salaries); (c) a decrease in freight expense of $403,388 (primarily due to the reduction in the order volume); and (d) a decrease in travel expense of $142,645 (primarily due to the focus on limiting travel for only essential trips and personnel). The decreases were partially offset by an increase in option expense of $376,903 (primarily due to the increase in options issued related to the private placement of common stock) and in legal expense of $188,236 (primarily due to costs associated with the proxy contest that concluded at our Annual Meeting of Shareholders held on August 15, 2013).We expect that our selling, general and administrative expenses, specifically legal and professional fees, will decrease over time as our outstanding litigation is resolved. We expect certain professional fees will decrease as we improve our internal controls over financial reporting. We expect our legal fees to decrease following the proxy contest that concluded at our Annual Meeting of Shareholders held on August 15, 2013 and further as we resolve our outstanding litigation. We also expect a significant reduction in salary and related expense in 2014 as we continue to right size the business.

Loss on Extinguishment

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.

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Other Income and Expense

Interest expense decreased from $1,095,881 in the year ended December 31, 2012 to $263,413 in the year ended December 31, 2013, a decrease of $832,468, or 76%, primarily due to the repayment of mature notes payable and convertible notes payable during the year ended December 31, 2013.

Adjusted EBITDAS

We believe Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization and Stock-Based Compensation ("Adjusted EBITDAS"), a non-GAAP financial measure, 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-GAAP financial measures to supplement their 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.

We use Adjusted EBITDAS in conjunction with traditional 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 GAAP. There are limitations to using non-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 GAAP and reconciliation of Adjusted EBITDAS to the most directly comparable GAAP measure, specifically net loss.

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

	December 31,	
	2013	2012
	(unaudited)	
Net loss	$ (5,489,892)	$ (5,574,775)
Non-GAAP adjustments:		
Loss on extinguishment of debt	2,792,900	-
Other income	-	(5,372)

Interest expense, net	263,413	1,089,778
Depreciation and amortization	158,029	353,045
Warrants issued to 2012 investors	487,200	-
Imputed value of contributed services	350,000	-
Stock-based compensation	558,286	556,148
Change in fair value of collateral securing employee advances	9,857	-
Adjusted EBITDAS	$ (870,207)	$ (3,581,176)

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Adjusted EBITDAS for the year ended December 31, 2013 does not eliminate costs aggregating approximately $850,000 associated with various legal matters and the proxy contest that concluded at our Annual Meeting of Shareholders held on August 15, 2013.

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, 2013 and 2012. 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, 2013 we had a working capital deficiency of $4,533,555 and an accumulated deficit of $28,130,668. During the years ended December 31, 2013 and 2012, we incurred net losses of $5,489,892 and $5,574,775 and used cash in operating activities of $1,024,781 and $947,911, respectively. These conditions raise substantial doubt about our ability to continue as a going concern.

Subsequent to December 31, 2013, we raised an aggregate of $100,000 in debt financing and continue to incur net losses, use cash in operating activities and experience cash and working capital constraints.

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 accounting principles generally accepted in the United States of America, 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, 2013 and 2012, the Company had cash on hand of $67,744 and $0, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

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 expense). For the year ended December 31, 2012, cash flows included net cash used in operating activities of $947,911. This amount included a decrease in operating cash related to a net loss of $5,574,775 partially offset by aggregate non-cash adjustments of $2,275,103, plus aggregate cash provided by changes in operating assets and liabilities of $2,351,761 (primarily a result of extending payables in order to preserve cash balances).

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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, 2012, net cash used in investing activities was $710,263 due to placing cash provided by investors into escrow (restricted cash) net of $139,739 repayments of employee advances.

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. For the year ended December 31, 2012, net cash provided by financing activities was $1,658,134. Cash was provided primarily by $850,002 of proceeds from a pending offering, proceeds from notes and other advances – related parties of $605,000 of which $293,812 was repaid during 2012, cash proceeds from the exercise of stock options of $26,662, and the sale of 116,668 shares of our Common Stock for cash proceeds of $525,004, offset in part by capital lease payments of $54,722.

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 (“GAAP”) 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.

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.

Debt Discounts

We record, as a discount to notes and convertible notes, the relative fair value of any 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 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.

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.

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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 April 2013, the FASB issued ASU No. 2013-07, “Presentation of Financial Statements (Topic 205) - Liquidation Basis of Accounting." This ASU addresses the requirements and methods of applying the liquidation basis of accounting and the disclosure requirements within ASC Topic 205 for the purpose of providing consistency between the financial reporting of U.S. GAAP liquidating entities. Generally, this ASU provides guidance for the preparation of financial statements and disclosures when liquidation is imminent. This ASU is effective for periods beginning after December 15, 2013 and would only have an impact on our consolidated financial statements or disclosures if liquidation became imminent.

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 47 through 73.

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

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d–15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the forms and rules of the SEC and that such information is accumulated and communicated to management, including the CEO, in a manner to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10–K, our management, including the CEO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. As described below, management has identified material weaknesses in our internal control over financial reporting. As a result of those material weaknesses, our management has concluded that, as of December 31, 2013, 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;

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- 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.

As of December 31, 2013, 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. In conducting this evaluation, management took into account the information identified and conclusions reached by the non-management directors in the review as of December 31, 2012. Due to financial constraints, we have not fully developed or implemented a remediation plan. 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 specific material weaknesses that management identified in our internal controls as of December 31, 2013 that persist are as follows:

- We did not develop appropriate accounting policies and procedures, including the review and supervision, for all necessary areas and did not effectively communicate our existing policies to our employees.

- We did not have a sufficient number of adequately trained technical accounting and external reporting personnel to support standalone external financial reporting under OTC Pink or SEC requirements.

- We did not have personnel with sufficient experience with United States generally accepted accounting principles to address complex transactions.

- We did not have effective controls over disbursements to ensure that disbursements were properly authorized and recorded.

- We did not maintain a fully integrated financial consolidation and reporting system throughout the year and as a result, extensive manual analysis, reconciliation and adjustments were required in order to produce timely financial statements for external reporting purpose.

- We did not appropriately segregate employees' duties in connection with the review and approval of certain transactions, reconciliations and other processes in day-to-day operations.

We did not have effective policies and procedures to ensure that senior management and the Board of Directors would receive timely information about related party transactions.

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.

Plans For Remediation of Material Weaknesses

We intend to implement changes to strengthen our internal controls. We are in the process of developing a remediation plan for the identified material weaknesses and we expect that work on the plan will continue throughout 2014, as financial resources permit. Specifically, to address the material weaknesses arising from insufficient accounting personnel, we have employed and continue to receive advice and assistance from third-party financial consultants who have addressed the Company’s inexperience relative to GAAP and SEC reporting. To address the material weakness arising from inadequate control over disbursements, the Company has canceled certain credit cards, limited the number of personnel with authority over the Company's bank accounts and is in the process of revising its policies and procedures for review and approval of employee disbursements and expenses. We are working with the third-party financial and operational consultants to continue to develop and implement the appropriate operating procedures to mitigate the weaknesses related to the separation of duties, proper approvals and timely and accurate financial information. The Company is currently evaluating what additional policies and procedures may be necessary, how to most effectively communicate the policies and procedures to its personnel and how to improve the integration of its financial consolidation and reporting system.

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The directors also plan to pursue the employment of a permanent Chief Financial Officer as the Company's operations and liquidity position improve.

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.

Item 9B. Other Information.

None.

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 31, 2014 are as follows:

Name	Age	Position
Lalit Dhadphale	42	President, Chief Executive Officer and Director
Youssef Bennani	47	Director
Joseph Savarino	44	Director
Ambassador Ned L. Siegel	62	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.

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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.

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.

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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.

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 2013 and 2012 for our Chief Executive Officer and for our former Chief Financial Officer during the years shown. 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.

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Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($) (1)	All Other Compensation ($)	Total ($)
Lalit Dhadphale (2)	2013	0	0	0	0	0
President and Chief Executive Officer	2012	265,534	83,750	0 (1)	0	349,284
Eduardo Altamirano (3)	2013	45,000	0	0	0	45,000
Chief Financial Officer, Treasurer and Secretary	2012	59,601		1,182,925 (1)	0	1,242,526

(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 $350,000 which was treated as contributed capital.

(3) Mr. Altamirano joined the Company in May 2012, was appointed Chief Financial Officer on September 24, 2012, and resigned on April 15, 2013. All of his stock options expired upon his resignation.

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 in order to conserve the Company's resources to support its development activities. Pursuant to the rules of the SEC, we have also included the compensation information for Eduardo Altamirano, our former Chief Financial Officer, who resigned in April 2013.

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 has elected not to receive his base salary since January 1, 2013.

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.

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Outstanding Equity Awards at Fiscal Year End

The following table summarizes equity awards outstanding at December 31, 2013, 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 Chief Executive Officer and President	250,000	--	2.20	5/20/14
	250,000	--	3.03	10/14/15
	--	250,000(1)	3.80	8/31/16

(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.

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, 2013:

2013 DIRECTOR COMPENSATION

	Option	All Other

Name	Awards ($) (3)	Compensation ($) (4)	Total ($)
Joseph Savarino (1)	29,740		29,740
Youssef Bennani (1)	29,740	12,000	41,740
Ned Siegel (1,2)	139,340		139,340

(1) In connection with his annual service on our Board, on November 30, 2013 we granted options to purchase 135,000 shares of our Common Stock at an exercise price of $.30 per share, and with a term of ten years. The options vest 100% on November 30, 2014.

(2) In connection with his joining our Board, we granted options to purchase 100,000 shares of Common Stock at an exercise price of $1.45 per shere, with a term of ten years. The options vest 33 % on each of June 19, 2014, June 19, 2015 and June 19, 2016 .

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

(4) Mr. Bennani earned $12,000 for serving on an Independent Committee during 2013. The Company has not paid this amount as of March 31, 2014.

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.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013, 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	2,543,150 (1)	$2.37	338,275 (2)
Equity compensation plans not approved by security holders (3)	2,342,846	$.94	-0-
Total	4,885,996	$1.69	338,275

(1) Consists of options to purchase 2,543,150 shares of our Common Stock granted under our 2009 Incentive Compensation Plan (the "2009 Plan"), with exercise prices ranging from $0.30 to $6.99 per share.

(2) Remaining shares available as of December 31, 2013 for future issuance 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).

(3) Consists of warrants issued (1) to investors to purchase 2,042,846 shares of our Common Stock with exercise prices ranging from $.25 to $4.95 per share and (2) to lenders to purchase 300,000 shares of our Common Stock with exercise prices ranging from $4.75 to $4.83. 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, 2013 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:		
Wayne Corona (4)	2,770,676	10.4%
Karen Singer (5)	2,276,607	8.1%
Lloyd I. Miller III (6)	2,276,607	8.1%
John C. Backus and Todd L. Hixon Group(7)	2,070,396	7.7%
Janice & Ralph Marra (8)	2,133,182	8.0%
Executive Officers and Directors:		
Lalit Dhadphale (9)	3,663,986	13.6%
Youssef Bennani (10)	175,000	*
Joseph Savarino (11)	158,569	*
Ned L. Siegel (12)	196,876	*
All executive officers and directors as a group - (4persons)	3,997,555	14.7%

* 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, 2013, 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 26,529,091 shares of Common Stock outstanding on December 31, 2013, adjusted as required by rules promulgated by the SEC. Does not include 422,315 shares of Series B Preferred Stock outstanding on December 31, 2013, which shares are convertible into 3,472,953 shares of Common Stock, based on a conversion factor of 8.22. 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) 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 4 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.

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(5) 189,796 shares of Series B Preferred Stock convertible into 1,560,123 shares of Common Stock, based on a conversion factor of approximately 8.22. 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 5 is based in part on information contained in the Schedule 13G filed with the SEC by Karen Singer on January 17, 2014.

(6) 189,796 shares of Series B Preferred Stock convertible into 1,560,123 shares of Common Stock, based on a conversion factor approximately 8.22. 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 6 is based in part on information contained in the Schedule 13D/A Amendment No. 11 filed with the SEC by Lloyd I. Miller, III on January 17, 2014.

(7) Consists of (i) 1,717,332 shares and warrants to purchase 257,544 shares of Common Stock owned by New Atlantic Venture Fund III, L.P., a Delaware limited partnership ("NAV"), (ii) 63,805 shares and warrants to purchase 9,568 shares of Common Stock owned by New Atlantic Entrepreneur Fund III, L.P., a Delaware limited partnership ("NAE"), and (iii) 19,259 shares and warrants to purchase 2,888 shares of Common Stock owned by NAV Managers Fund, LLC, a Delaware limited liability company ("NAV Managers"). New Atlantic Fund III, LLC, a Delaware limited liability Company ("NAF"), is the general partner of NAV and NAE. Each of NAV, NAE and NAV Managers have shared voting and dispositive power over the shares owned by such entity.

John C. Backus is a managing member of NAV, NAE and NAF, and is a member of NAV Managers. As such, Mr. Backus has shared voting and dispositive power over the 2,070,396 shares owned in total by NAV, NAE and NAV Managers.

Todd L. Hixon is a managing member of NAV, NAE and NAF, and is a member of NAV Managers. As such, Mr. Hixon has shared voting and dispositive power over the 2,070,396 shares owned in total by NAV, NAE, and NAV Managers.

Scott M. Johnson is a managing member of NAV, NAE and NAF. As such, Mr. Johnson has shared voting and dispositive power over the 2,048,249 shares owned in total by NAV and NAE.

Thanasis Delistathis is a managing member of NAV, NAE and NAF. As such, Mr. Delistathis has shared voting and dispositive power over the 2,048,249 shares owned in

total by NAV and NAE.

As the general partner of NAV and NAE, NAF has shared voting and dispositive power over the 2,048,249 shares owned in total by NAV and NAE.

The business address for NAV, NAE, NAV Managers, NAF, John C. Backus, Todd C. Hixon, Scott M. Johnson and Thanasis Delistathis is 11911 Freedom Drive, Suite 1080, Reston, VA 20190.

The information in this Note 7 is based in part on the information contained in the Schedule 13D/A Amendment No. 7 filed with the SEC by the John C. Backus and Todd L. Hixon group on January 17, 2014.

(8) Consists of (i) 1,939,738 shares, (ii) 18,321 shares of Series B Preferred Stock which is convertible into 150,598 shares, based on a conversion factor of approximately 8.22, and (iii) warrants to purchase 42,846 shares. Ms. Marra has sole dispositive and voting power with respect to 1,862,049 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 8 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.

(9) Includes stock options to purchase 500,000 shares of Common Stock. Does not include stock options to purchase 250,000 shares of Common Stock that are not currently exercisable within 90 days of December 31, 2013.

(10) Includes stock options to purchase 175,000 shares of Common Stock. Does not include stock options to purchase 140,000 shares of Common Stock that are not currently exercisable within 90 days of December 31, 2013.

(11) Includes stock options to purchase 40,000 shares of Common Stock. Does not include stock options to purchase 140,000 shares of Common Stock that are not currently exercisable within 90 days of December 31, 2013.

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(12) Does not include stock options to purchase 235,000 shares of Common Stock that are not exercisable within 90 days of December 31, 2013.

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

Related Party Transactions

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. During 2012, the director provided general, financial and business consulting services. As a result, the director earned $93,800 related to these services during the year ended December 31, 2012. During the years ended December 31, 2013 and 2012, the director was paid $0 and $93,800, respectively.

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, 2013 and 2012, the Company estimated the value of the collateral at $9,001 and $18,858, respectively.

From March 2011 to April 2013, a wife of a director served as the agent for the Company's D&O insurance. During years ended December 31, 2013 and 2012, the Company recorded insurance premium expense of $24,329 and $47,930, 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 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.

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Item 14. Principal Accounting Fees and Services.

The following table presents fees 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, 2013, and 2012, and fees billed for other services rendered by our principal accountants during those periods.

	Year Ended December 31, 2013	Year Ended December 31, 2012
Audit Fees (1)	$ 115,930	$ 218,884
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, 2013 and 2012, 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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Item 15. Exhibits, Financial Statement Schedules.

(a) Exhibits

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	Certificate of Designation of Preferences, Rights and Limitations of Series B Preferred Stock Pursuant to Section 151 of the Delaware General Corporation Law. (9)
3.7	Amended and Restated By-Laws of the Company. (9)
3.8	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)

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Exhibit No.	Description
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)
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)
10.1	2009 Incentive Compensation Plan. (6) +
10.2	Form of Stock Option Agreements under 2009 Incentive Compensation Plan. (7) +
10.3	Securities Purchase Agreement dated November 8, 2010. (9)
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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Exhibit No.	Description
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.
21.1	Subsidiaries of the Registrant. *
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.

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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.

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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: April 14, 2014

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 and Director	April 14, 2014
/s/ Lalit Dhadphale Lalit Dhadphale	Principal Financial and Accounting Officer	April 14, 2014
/s/ Youssef Bennani Youssef Bennani	Director	April 14, 2014
/s/ Joseph Savarino Joseph Savarino	Director	April 14, 2014

/s/ Ambassador Ned L. Siegel Ambassador Ned L. Siegel	Director	April 14, 2014

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Healthwarehouse.com, Inc. and Subsidiaries

Index to Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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
April 14, 2014

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash	$ 67,744	$ -
Restricted cash	-	850,002
Accounts receivable, net	307,211	89,853
Inventories	277,300	395,584
Prepaid expenses and other current assets	59,143	52,292
Total current assets	711,398	1,387,731
Property and equipment, net	624,634	768,021
Web development costs, net	83,780	-
Total assets	$ 1,419,812	$ 2,155,752
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable – trade	$ 3,310,000	$ 2,973,774
Accounts payable – related parties	83,691	147,933
Accrued expenses and other current liabilities	621,052	1,891,436
Deferred revenue	95,792	-
Current portion of equipment lease payable	56,323	49,122
Convertible notes	-	1,000,000
Notes payable and other advances, net of debt discount of $44,363 as of December 31, 2012		1,955,637
Note payable and other advances – related parties	78,095	765,000
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, 2013 and December 31, 2012 (aggregate liquidation preference of $1,000,000)	1,000,000	1,000,000
Total current liabilities	5,244,953	9,782,902
Long term liabilities:		
Notes payable and other advances, net of debt discount of $269,998 as of December 31, 2013	430,002	-
Long term portion of equipment lease payable	109,964	166,286

Total long term liabilities	539,966	166,286
Total liabilities	5,784,919	9,949,188
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, 2013 and December 31, 2012 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; 422,315 and 394,685 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively (aggregate liquidation preference of $4,270,257 and $3,990,877 as of December 31, 2013 and December 31, 2012, respectively)	422	395
Common stock – par value $0.001 per share; authorized 50,000,000 shares; 27,708,303 and 13,030,397 shares issued and 26,529,091 and 11,851,185 shares outstanding as of December 31, 2013 and December 31, 2012, respectively	27,708	13,031
Additional paid-in capital	27,166,147	16,460,385
Employee advances	(9,001)	(18,858)
Treasury stock, at cost, 1,179,212 shares as of December 31, 2013 and December 31, 2012	(3,419,715)	(3,419,715)
Accumulated deficit	(28,130,668)	(20,828,674)
Total stockholders' deficiency	(4,365,107)	(7,793,436)
Total liabilities and stockholders' deficiency	$ 1,419,812	$ 2,155,752

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 Twelve Months Ended December 31,	
	2013	2012
Net sales	$ 10,233,112	$ 11,081,429
Cost of sales	5,111,737	5,913,977
Gross profit	5,121,375	5,167,452
Operating expenses:		
Selling, general and administrative expenses	7,554,954	9,261,523
Impairment of intangible assets	-	396,298
Total Operating Expenses	7,554,954	9,657,821
Loss from operations	(2,433,579)	(4,490,369)
Other income (expense):		
Loss on extinguishment of debt	(2,792,900)	-
Interest income	-	6,103
Other income	-	5,372
Interest expense	(263,413)	(1,095,881)
Total other expense	(3,056,313)	(1,084,406)
Net loss	(5,489,892)	(5,574,775)
Preferred stock:		
Series B convertible contractual dividends	(279,380)	(261,084)
Series B convertible deemed dividends	(1,532,722)	-
Series C redeemable deemed dividends	-	(433,606)
Net loss attributable to common stockholders	$ (7,301,994)	$ (6,269,465)
Per share data:		
Net loss – basic and diluted	$ (0.23)	$ (0.51)
Series B convertible contractual dividends	(0.01)	(0.02)
Series B convertible deemed dividends	(0.07)	-
Series C redeemable deemed dividends	-	(0.04)
Net loss attributable to common stockholders - basic and diluted	$ (0.31)	$ (0.57)

Weighted average number of common shares outstanding - basic and diluted	23,401,575	11,003,595

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 TWELVE MONTHS ENDED DECEMBER 31, 2012

	Convertible Series B Preferred Stock		Common Stock		Additional Paid-In	Employee	Treasury Stock		Accumulate
	Shares	Amount	Shares	Amount	Capital	Advances	Shares	Amount	Deficit
Balances, December 31, 2011	368,862	$369	11,283,830	$11,284	$15,110,343	$-	1,179,212	$(3,419,715)	$(14,559,20
Stock-based compensation	-	-	-	-	556,148	-	-	-	-
Issuance of Series B preferred stock as payment-in-kind for dividend	25,823	26	-	-	243,975	-	-	-	-
Cashless exercise of warrants into common stock	-	-	1,465,578	1,466	(1,466)	-	-	-	-
Exercise of stock options into common stock	-	-	8,332	8	26,654	-	-	-	-
Reclassification of employee advances partially collateralized by common stock (see note)	-	-	-	-	-	(156,468)	-	-	-
Provision to establish reserve									

against employee advances	-	-	-	-	-	137,610	-	-	-
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	(261,084
Deemed dividends on redeemable Series C preferred stock	-	-	-	-	-	-	-	-	(433,606
Issuance of common stock and warrants for cash	-	-	116,670	117	524,887	-	-	-	-
Cashless exercise of stock options into common stock	-	-	155,987	156	(156)	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	(5,574,775
Balances, December 31, 2012	394,685	$395	13,030,397	$13,031	$16,460,385	$(18,858)	1,179,212	$(3,419,715)	$(20,828,67

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 TWELVE MONTHS ENDED DECEMBER 31, 2013

Convertible