

Risk Factors Comparison 2023-05-23 to 2022-05-24 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could materially and adversely affect our business, financial condition, operating results and the trading price of our common stock. Because of the following factors, as well as other factors affecting the Company's results of operations and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. This discussion of risk factors contains forward-looking statements. This section should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. **Regulatory Risks** We may inadvertently fail to comply with various state or federal regulations covering **our pet health business, including** the dispensing of prescription pet medications which may subject us to reprimands, sanctions, probations, fines, suspensions, or the loss of one or more of our pharmacy licenses. ~~The~~ **Our pet health business, which includes the** sale and delivery of prescription pet medications is generally governed by state laws and state regulations, and with respect to controlled substances, also by federal law. **Governmental authorities that regulate our business have broad latitude to make, interpret, and enforce the laws and regulations that govern us**. Since our pharmacy is located in the State of Florida, the Company is governed by the laws and regulations of the State of Florida. Each prescription pet medication sale we make is likely also to be covered by the laws of the state where the customer is located. The laws and regulations relating to the sale and delivery of prescription pet medications vary from state to state, but generally require that prescription pet medications be dispensed with the authorization from a prescribing veterinarian. Our current **home- state license with the Florida Board of Pharmacy** is valid until February 28, ~~2023~~ **2025**, and **PetCareRx's home- state license in the State of New York is valid until April 30, 2025**, and there is no guarantee that we will be able to renew ~~it~~ **such licenses when required**. To the extent that we are unable to maintain our license as a community pharmacy with the Florida Board of Pharmacy **(and to the extent we are unable to maintain PetCareRx's license in New York)**, or if we do not maintain the licenses granted by other state boards, or if we become subject to actions by the FDA, or other enforcement regulators, our dispensing of prescription medications to pet owners could cease, which could have a material adverse effect on our operations. **The expansion of our business into the offer and sale of pet insurance products will also subject us to additional laws and regulations regarding those activities, including registering as an insurance distributor in states in which we offer and sell the Pumpkin co- branded pet insurance products and otherwise complying with state and federal laws relating to the sale and distribution of insurance products**. The Company is a party to routine litigation and administrative complaints incidental to its business. Management does not believe that the resolution of any or all of such routine litigation and administrative complaints is likely to have a material adverse effect on the Company's financial condition or results of operations. While we make every effort to fully comply with all applicable state rules, laws, and regulations, from time to time we have been the subject of administrative complaints regarding the authorization of prescriptions prior to shipment. We cannot assure you that we will not be the subject of administrative complaints in the future. We cannot guarantee you that we will not be subject to reprimands, sanctions, probations, or fines, or that one or more of our pharmacy licenses will not be suspended or revoked. If we were unable to maintain our license as a community pharmacy in the State of Florida, or if we are not granted licensure in a state that begins to require licensure, or if one or more of the licenses granted by other state boards should be suspended or revoked, our ability to continue to sell prescription medications and to continue our business as it is presently conducted could be in jeopardy. **Business Risks** Our failure to properly manage our inventory may result in excessive inventory carrying costs, or inadequate supply of products, which could materially adversely affect our financial condition and results of operations. Our current product line contains approximately ~~3-15~~ **3-15**, 000 SKUs **including the SKUs acquired in our acquisition of PetCareRx**. A significant portion of ~~our~~ **PetMeds** sales is attributable to products representing approximately 100 SKUs, including the most popular flea and tick, and heartworm preventative brands. We need to properly manage our inventory to provide an adequate supply of these products and avoid excessive inventory of the products representing the balance of the SKUs. We generally place orders for products with our suppliers based upon our internal estimates of the amounts of inventory we will need to fill future orders. These estimates may be significantly different from the actual orders we receive. In the event that subsequent orders fall short of original estimates, we may be left with excess inventory. Significant excess inventory could result in price discounts, increased inventory carrying costs, and obsolescence. Similarly, if we fail to have an adequate supply of some SKUs, we may lose sales opportunities. We cannot guarantee that we will maintain appropriate inventory levels. Any failure on our part to maintain appropriate inventory levels may have a material adverse effect on our financial condition and results of operations. Resistance from veterinarians to authorize prescriptions, or attempts ~~for~~ **or** efforts **by veterinarians** ~~on their part~~ to discourage pet owners from purchasing from us could cause our sales to decrease and could materially adversely affect our financial condition and results of operations. Since we began our operations, some veterinarians have resisted providing our customers with a copy of their pet's prescription or authorizing the prescription to our pharmacy staff, thereby effectively preventing us from filling such prescriptions under state law. We have also been informed by customers and consumers that veterinarians have tried to discourage pet owners from purchasing from internet mail-order pharmacies. **The laws and regulations relating to the sale and delivery of prescription pet medications vary from state to state.** Although veterinarians in some states are required by law to provide a pet owner with a prescription if medically appropriate, if the number of veterinarians who refuse to authorize

prescriptions should increase, or if veterinarians are successful in discouraging pet owners from purchasing from internet mail-order pharmacies, our sales could decrease, and our financial condition and results of operations may be materially adversely affected. Significant portions of our sales are made to residents of eight states. If we should lose our pharmacy license in one or more of these states, our financial condition and results of operations would be materially adversely affected. While we ship pet medications to customers in all 50 states, approximately 50 % of our sales for the fiscal year ended March 31, ~~2022~~ **2023**, were made to customers located in the states of California, Florida, Texas, New York, Pennsylvania, North Carolina, Georgia, and Virginia. If for any reason our license to operate a pharmacy in one or more of those states should be suspended or revoked, or if it is not renewed, our ability to sell prescription medications to residents of those states would cease and our financial condition and results of operations in future periods would be materially adversely affected. We ~~now~~ have direct buying relationships with all the major pet medication manufacturers ~~; the~~ **and each** contractual relationship depends on our compliance with ~~their~~ **each** **respective manufacturer's** minimum advertised pricing policies (MAPP). ~~The~~ **During fiscal 2020, the** Company **established** **maintains** direct purchasing relationships with all the major pet medication manufacturers. These relationships entitle the Company to buy directly from the manufacturer under the terms and conditions of a purchasing agreement which dictates purchase pricing of inventory and criteria to obtain additional discounts and rebates. The terms of these agreements also require the Company to comply with the manufacturers' MAPP. Each advertisement and / or promotion of a product below the MAPP price, should they occur, would be a violation of the policy. This policy applies to all advertisements of products in all media including, without limitation, flyers, posters, coupons, mailers, inserts, newspapers, magazines, on-line catalogs, mail order catalogs, public signage and all Internet or similar electronic media, television, radio and public signage, including websites, email newsletters, forums, and auction sites. At the discretion of the manufacturers, non-compliance with the MAPP can result in one or more of the following actions: (1) forfeiture of future rebates or discounts from the manufacturer, (2) suspension of future purchases from the manufacturer, (3) or termination of current or future business relationship. The Company has and will continue to make every attempt to abide by the manufacturers MAPP. However, no assurances can be made that the Company will not violate MAPP inadvertently. A reduction or discontinuance of these rebates or discounts would increase our costs and could reduce our profitability. If any of these major pet medication manufacturers were to terminate our purchasing relationship it could materially adversely affect our business. If the manufacturers are not able to enforce their MAPP industry-wide, then our profit margins and results of operations may also be impacted negatively. The loss of any of our key suppliers would negatively impact our business. We have direct purchasing relationships with all of the major pet medication manufacturers, ~~from~~ the majority of which we purchase significant quantities of pet medication products ~~.~~ **with the majority from these major manufacturers**. We do maintain annual purchasing contracts with these major manufacturers. While we believe that our supplier relationships are good, a supplier could discontinue selling to us at any time. The loss of any of our key suppliers of pet medications offered by us would have a negative impact on our business, financial condition, and results of operations. Shipping is a critical part of our business and any changes in, or disruptions to, our shipping arrangements could adversely affect our business, financial condition, and results of operations. We currently rely on third-party national, regional, and local logistics providers to deliver the products we offer on our website. If we are not able to negotiate acceptable pricing and other terms with these providers, or if these providers experience performance problems or other difficulties in processing our orders or delivering our products to customers, it could negatively impact our results of operations and our customers' experience. In addition, our ability to receive inbound inventory efficiently and ship merchandise to customers may be negatively affected by factors beyond our and these providers' control, including inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism or other events, such as labor shortages and disputes, financial difficulties, volatility in the prices of fuel, gasoline and commodities such as paper and packing supplies, system failures and other disruptions to the operations of the shipping companies on which we rely. We are also subject to risks of damage or loss during delivery by our shipping vendors. ~~Further, due to the continuing spread of COVID-19 and its variant strains and related work and travel restrictions, there may be disruptions and delays in national, regional and local shipping, which may negatively impact our customers' experience and our operations and financial results. The spread of COVID-19, and any future similar outbreak, may disrupt our suppliers and logistics providers and other third-party delivery agents, as their workers may be prohibited or otherwise unable to report to work and transporting products within regions may be limited due to factory closures, port closures and increased border controls and closures, among other things.~~ If the products ordered by our customers are not delivered in a timely fashion or are damaged or lost during the delivery process, our customers could become dissatisfied and cease buying products through our website and mobile applications, which would adversely affect our business, financial condition, and results of operations **. The quality of our customer service and support is important to our customers, and if we fail to provide adequate levels of customer service and support, we could lose customers, which would harm our business. We believe that a high level of customer care and support is critical in retaining and expanding our customer base. Although our customer care representatives participate in ongoing training programs on a variety of topics, such as product knowledge, computer usage, customer service tips, and the relationship between our Company and veterinarians, any perceived or actual decline in our customer-service response times or in the quality of our customer care representatives, even if episodic or temporary, could hurt our business. If customers perceive that our customer care and support does not compare favorably to our competitors, then we may lose customers to such competitors**. The content of our website could expose us to various kinds of liability, which, if prosecuted successfully, could negatively impact our business. Because we post product and pet health information and other content on our website, we face potential liability for negligence, copyright infringement, patent infringement, trademark infringement, defamation, and / or other claims based on the nature and content of the materials we post. Various claims have been brought, and sometimes successfully prosecuted, against Internet content distributors. We could be exposed to liability with respect to the unauthorized duplication of content or unauthorized use of other parties' proprietary technology. Although we maintain general liability insurance, our insurance may not cover potential claims of this

type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance, or is in excess of insurance coverage, could materially adversely affect our financial condition and results of operations. We may not be able to protect our intellectual property rights, and / or we may be found to infringe on the proprietary rights of others. We rely on a combination of trademarks, trade secrets, copyright laws, and contractual restrictions to protect our intellectual property rights. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our non-prescription private label or generic equivalents, when and if developed, as well as aspects of our sales formats, or to obtain and use information that we regard as proprietary, including the technology used to operate our website and our content, and our trademarks. Litigation or proceedings before the United States Patent and Trademark Office or other bodies may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets and domain names, or to determine the validity and scope of the proprietary rights of others. Any litigation or adverse proceeding could result in substantial costs and diversion of resources and could seriously harm our business and operating results. Third parties may also claim infringement by us with respect to past, current, or future technologies. We expect that participants in our market will be increasingly involved in infringement claims as the number of services and competitors in our industry segment grows. Any claim, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays, or require us to enter into royalty or licensing agreements. These royalty or licensing agreements might not be available on terms acceptable to us or at all. If we are unable to protect our Internet addresses or to prevent others from using Internet addresses that are confusingly similar, our business may be adversely impacted. Our Internet addresses, www.1800petmeds.com, www.1888petmeds.com, www.petmedexpress.com, www.petmed.com, www.petmeds.com, www.petmeds.pharmacy, www.petmed.pharmacy, and www.1800petmeds.pharmacy, and **petcarerx.com**, are critical to our brand recognition and our overall success. If we are unable to protect these Internet addresses, our competitors could capitalize on our brand recognition. There may be similar Internet addresses used by competitors. Governmental agencies and their designees generally regulate the acquisition and maintenance of Internet addresses. The regulation of Internet addresses in the United States and in foreign countries has changed and may undergo further change in the near future. Furthermore, the relationship between regulations governing Internet addresses and laws protecting trademarks and similar proprietary rights is unclear. Therefore, we may not be able to protect our own Internet addresses or prevent third parties from acquiring Internet addresses that are confusingly similar to, infringe upon, or otherwise decrease the value of our Internet addresses. Since **all-most** of our operations are housed in a single location, we are more susceptible to a business interruption in the event of damage to, or disruptions in, our facility, **particularly with respect to extreme weather events**. Our headquarters and **principal** distribution center are currently located in one location in South Florida, and most of our shipments of products to our customers are made from this **sole-primary** distribution center. Because we consolidate our operations in one location, we are more susceptible to power and equipment failures, and business interruptions in the event of fires, floods, and other natural disasters than if we had additional locations. Furthermore, because we are located in South Florida, which is a hurricane-sensitive area and is **susceptible to sea-level rise**, we are particularly susceptible to the risk of damage to, or total destruction of, our headquarters and distribution center and surrounding transportation infrastructure caused by a hurricane **or rising sea levels. Additionally, recent intense weather conditions may cause property insurance premiums to significantly increase in the future. We recognize that the frequency and intensity of extreme weather events, sea-level rise, and other climatic changes may continue to increase and, as a result, our exposure to these events may increase**. We cannot assure you that we are adequately insured to cover the amount of any losses relating to any of these potential events, including business interruptions resulting from damage to or destruction of our headquarters and distribution center, or power and equipment failures relating to our call center or websites, or interruptions or disruptions to major transportation infrastructure, or other events that do not occur on our premises. The occurrence of one or more of these events could adversely impact our ability to generate revenues in future periods. A failure **or misuse** of our information systems and customer-facing technology systems, **including or our any security breach, online payment methods, could adversely affect or our results, unauthorized disclosure of operations confidential information, expose us to third-party claims, or increase or our exposure to fraud and** other cyber-attacks on our systems, could result in litigation and regulatory risk **risks**, harm our reputation and have a material adverse effect on our business. Our business is dependent upon the efficient operation of our information systems. In particular, we rely on our information systems to effectively manage our business model strategy, with tools to track and manage sales, inventory, marketing, customer service efforts, the preparation of our consolidated financial and operating data, credit card information, and customer information. The failure of our information systems to perform as designed or the failure to maintain and enhance or protect the integrity of these systems could disrupt our business operations, adversely impact sales and the results of operations, expose us to customer or third-party claims, or result in adverse publicity. Through our information technology, we are able to provide an improved overall shopping and interconnected retail experience that empowers our customers to shop and interact with us from computers, tablets, smartphones and other mobile devices. We use our website and our mobile application both as sales channels for our products and also as methods of providing product and other relevant information to our customers to drive online sales. Our online programs, communities and knowledge center allow us to inform, assist and interact with our customers. We also continually seek to enhance all of our online properties to provide an attractive user-friendly interface for our customers. Disruptions, failures or other performance issues with these customer-facing technology systems could impair the benefits that they provide to our online business and negatively affect our relationship with our customers. **Further, we currently accept payments using a variety of different payment methods which may subject us to** Additionally-- **additional regulations**, we collect, process, and retain sensitive **compliance requirements**, and confidential customer information in **may also increase our exposure to fraud, criminal activity, and the other normal course risks. In the future, as technology develops and we begin to offer new payment options to consumers, including by integrating emerging mobile and other payment methods, we may be subject to additional regulations, compliance requirements, or fraud. If**

we fail to comply with the rules or requirements of any provider of a payment method we accept, if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, we may, among other things, be subject to fines or higher transaction fees and may lose, or face restrictions placed upon, our ability to accept credit card payments from consumers or facilitate other types of online payments. If any of these events were to occur, our business -Despite the security measures we have in place and any additional measures we may implement in the future-, financial condition, and results of operations could be materially and adversely affected. Our failure our- or facilities and systems, and those-- the failure of our third- party service providers -, could be vulnerable to protect security breaches, computer viruses, lost or our website misplaced data-, networks programming errors, human errors and systems against cybersecurity incidents, acts of vandalism, or otherwise to protect or our other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, could damage whether by us directly or our reputation and brand and substantially harm our business, financial condition, and results of operations. As a result of our services being web based, we collect, process, transmit and store large amounts of data about our customers, employees, suppliers and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third- party service providers for a variety of reasons, including storing, processing and transmitting proprietary, personal and confidential information on our behalf. While we rely on tokenization solutions licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers, advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of these solutions to protect confidential and sensitive information from being breached or compromised. Similarly, our security measures, and those of our third- party service providers, may not detect or prevent all attempts to hack our systems or those of our third- party service providers. Distributed Denial- of- Service (" DDoS") attacks, viruses, malicious software, break- ins, phishing attacks, ransomware, social engineering, security breaches or other cybersecurity incidents and similar disruptions that may jeopardize the security of information stored in or transmitted by our website, networks and systems or that we or our third- party service providers otherwise maintain, including payment card systems, may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and our service providers may not anticipate or prevent all types of attacks until after they have already been launched, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third- party service providers. In addition, cybersecurity incidents can also occur as a result of non- technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships. Breaches of our security measures or those of our third- party service providers or any cybersecurity incident could result in unauthorized access to our website, networks and systems; unauthorized access to and misappropriation of consumer and / or employee information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our website, networks or systems; deletion or modification of content or the display of unauthorized content on our website; interruption, disruption or malfunction of operations; costs relating to cybersecurity incident remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. If any of these cybersecurity incidents occur, or there is a public perception that we, or our third- party service providers, have suffered such a breach, our reputation and brand could also be damaged and we could be required to expend significant capital and other resources to alleviate problems caused by such cybersecurity incidents. As a consequence, our business could be materially and adversely affected and we could also be exposed to litigation and regulatory action and possible liability. In addition, any party who is able to illicitly obtain a customer' s password could access the customer' s transaction data or personal information. Any compromise or breach of our security measures, or those of our third- party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition, and results of operations. The costs of mitigating cybersecurity risks are significant and are likely to increase in the future. These costs include, but are not limited to, retaining the services of cybersecurity providers; compliance costs arising out of existing and future cybersecurity, data protection and privacy laws and regulations; and costs related to maintaining redundant networks, data backups and other damage our reputation- mitigation measures. We do not carry cyber insurance, which may expose us to certain potential losses for damages or result in penalization with fines in an amount exceeding our resources. Our migration of data and systems to a new information technology platform may disrupt our operations. As an established web- based seller of pet products, we rely on a combination of legacy public- facing websites, internal applications and services, and back- end business intelligence systems. We are in the process of migrating and upgrading many of our platforms and applications to more modular, web- based and SaaS systems. If we are not able to realize the anticipated benefits of our migration to this new infrastructure, our business could be harmed. There may be unforeseen issues as a result of the these migrations that may cause disruptions to the availability of our products due to service outages, downtime or other similar issues that could harm our business. We also may be subject to additional risk of cybersecurity breaches or other improper access to our data or confidential information following our migration to these new computing platforms. In addition, our new platforms may operate differently than anticipated when introduced or when new versions or enhancements are released. As we increase our reliance on our systems, our exposure to damage from service interruptions may increase. Further, our transition could involve significant time and expense and could negatively impact our ability to deliver our products and services, which could

harm our financial condition and results of operations. Our marketing, e-commerce, and other business activities are subject to a variety of federal and state laws and regulations relating to privacy, data protection, marketing and advertising and consumer protection, many of which may evolve or expand beyond their current scope, and our failure to comply with this complex set of evolving laws and regulations could adversely affect our business, financial condition, and results of operations. We collect, maintain, use, and share personal information provided to us through our various marketing activities, including email and social media marketing and postal mailings, as well as other consumer, employee, and business-to-business interactions, in order to provide a better experience for our customers, employees, and vendors. Our current and future marketing and advertising practices depend on our ability to collect, maintain, use, and share this personal information with certain service providers and other third-party vendors, and we are subject to various federal and state laws and regulations that govern such marketing and advertising practices. In addition, we also collect, store, and transmit employees' health information for certain reasons, such as administering employee benefits; accommodating disabilities and injuries; complying with public health requirements; and maintaining employee safety in the workplace. Laws and regulations relating to privacy, data protection, cybersecurity, marketing and advertising, and consumer protection are evolving and subject to potentially differing interpretations. While we strive to comply with all such regulations and believe that we are good stewards of our customers' data, this area is rapidly evolving, and it is possible that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. If so, we may be subject to proceedings or actions against us by governmental entities or others, and we may suffer damage to our reputation as a result of such proceedings or actions. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy, data protection, cybersecurity or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business. Federal and state governmental authorities continue to evaluate the privacy implications inherent in the use of third-party "cookies" and other methods of online tracking for behavioral advertising and other purposes. The U. S. government and state governments have enacted, have considered or are considering enacting, legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. The regulation of the use of these cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially and adversely affect our business, financial condition, and results of operations. In addition, various federal and state legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection, cybersecurity, consumer protection, and advertising. For example, in June 2018, the State of California enacted the California Consumer Privacy Act of 2018 (the "CCPA"), which became effective on January 1, 2020. The CCPA requires companies that process information of California residents to make new disclosures to consumers about their data collection, use and sharing practices, and allows consumers to opt out of selling their data to third parties and provides a new cause of action for data breaches. Further, on November 3, 2020, the California Privacy Rights Act (the "CPRA") was voted into law by California residents. The CPRA significantly amends the CCPA, and imposes additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. It also creates a new California data protection agency specifically tasked to enforce the law, which could result in increased regulatory scrutiny of businesses conducting activities in California in the areas of data protection and security. The substantive requirements for businesses subject to the CPRA went into effect on January 1, 2023, and will be enforced effective from July 1, 2023. Other states in which we operate have also enacted laws similar to CPRA and similar laws have been proposed in other states and at the federal level, and if passed, such laws may have potentially conflicting requirements that would make compliance challenging. Additionally, the Federal Trade Commission (the "FTC") and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. Consumer protection laws require us to publish statements that describe how we handle personal data and choices individuals may have about the way we handle their personal data. If such information that we publish is considered untrue, we may be subject to government claims of unfair or deceptive trade practices, which could lead to significant liabilities and consequences. Further, according to the FTC, violating consumers' privacy rights or failing to take appropriate steps to keep consumers' personal data secure may constitute unfair acts or practices in or affecting commerce in violation of Section 5 (a) of the Federal Trade Commission Act. Each of these privacy, security, and data protection laws and regulations, and any other such changes or new laws or regulations, could impose significant limitations, require changes to our business, impose fines and other penalties or restrict our use or storage of personal information, which may increase our compliance expenses and make our business more costly or less efficient to conduct. Any such changes could compromise our ability to develop an adequate marketing strategy and pursue our growth strategy effectively, which, in turn, could adversely affect our business, financial condition, and results of operations. We face the risk of litigation resulting from unauthorized text messages sent in violation of the Telephone Consumer Protection Act. We send short message service, or SMS, text messages to

customers and job candidates. The actual or perceived improper sending of text messages may subject us to potential risks, including liabilities or claims relating to consumer protection laws. For example, the Telephone Consumer Protection Act of 1991, a federal statute that protects consumers from unwanted telephone calls, faxes, and text messages, restricts telemarketing and the use of automated SMS text messages without proper consent. Numerous class-action suits under federal and state laws have been filed in recent years against companies who conduct SMS texting programs, with many resulting in multi-million-dollar settlements to the plaintiffs. Federal or state regulatory authorities or private litigants may claim that the notices and disclosures we provide, form of consents we obtain, or our SMS texting practices are not adequate or violate applicable law, resulting in civil claims against us. While we strive to comply with all applicable laws and regulations, the scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations, we could face direct liability, disrupt could be required to change some portions of our business model, or otherwise affect our or could face negative publicity, and our business, financial condition, and results of operations could be adversely affected as a result. Even an unsuccessful challenge of our SMS texting practices by our customers, regulatory authorities, or other third parties could result in negative publicity and could require a costly response from and defense by us.

Our operating results are difficult to predict and may fluctuate, and a portion of our sales are seasonal. Factors that may cause our operating results to fluctuate include:

- Our ability to obtain new customers at a reasonable cost, retain existing customers, or encourage reorders;
- Our ability to increase the number of visitors to our website, or our ability to convert visitors to our website into customers;
- The mix of medications and other pet products sold by us;
- Our ability to manage inventory levels or obtain an adequate supply of products;
- Our ability to adequately maintain, upgrade, and develop our website, the systems that we use to process customers' orders and payments, or our computer network;
- Increased competition within our market niche;
- Price competition;
- New products introduced to the market, including generics;
- Increases in the cost of advertising;
- The amount and timing of operating costs and capital expenditures relating to expansion of our product line or operations;
- Potential disruption to the distribution network;
- Disruption of our toll-free telephone service, technical difficulties, or systems and Internet outages or slowdowns;
- The impact of further outbreaks of COVID-19, and any future similar outbreak, on our business operations and generally on the economy, including the measures taken by governmental authorities to address it; and
- Unfavorable general economic trends.

Because of the seasonality of our business operating results are difficult to predict, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. The majority of our product sales are affected by the seasons, due to the seasonality of mainly flea, tick, and heartworm medications. For the quarters ended June 30, 2021-2022, September 30, 2021-2022, December 31-30, 2021-2022, and March 31, 2022-2023, Company sales were 29-27%, 25-26%, 22-23%, and 24%, respectively. In addition to the seasonality of our sales, our annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, including weather, many of which are out of our control. Any change in one or more of these factors could materially adversely affect our financial condition and results of operations in future periods. Uncertainties in economic conditions and their impact on consumer spending patterns could adversely impact our business, financial condition, and results of operations. Our results of operations are sensitive to changes in certain macro-economic conditions that impact consumer spending on pet products and services. Some of the factors that may affect consumer spending on pet products and services include consumer confidence, levels of unemployment, inflation, interest rates, tax rates and general uncertainty regarding the overall future economic environment. We may experience declines in sales or changes in the types of products sold during economic downturns. Any material decline in the amount of consumer spending or other adverse economic changes could reduce our sales, and a decrease in the sales of higher-margin products could reduce profitability and, in each case, harm our business, financial condition, and results of operations. We may have grown, and continue to seek to grow our business through acquisitions of, or investments in, new or complementary businesses, facilities, technologies, offerings, or products, or through strategic alliances, and the failure to manage these acquisitions, investments, or other strategic alliances, or to integrate them with our existing business, could have a material adverse effect on us. We recently During the past 12 months, we acquired one company (PetCareRx) and entered into two, and made an investment in, a strategic alliance, partnerships to enable us to offer telehealth services and pet insurance to our customers. We expect that we may in the future consider additional opportunities to acquire or make investments in new or complementary businesses, facilities, technologies, offerings, or products, or enter into other strategic alliances, which may enhance our capabilities, complement our current products and services or expand the breadth of our markets. Acquisitions, investments and other strategic alliances, including our recent acquisition of PetCareRx, involve numerous risks, including:

- problems integrating the acquired business, facilities, technologies or products, including issues maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- losses we may incur as a result of declines in the value of an investment or as a result of incorporating an investee's financial performance into our financial results;
- diversion of management's attention from our existing business;
- risks associated with entering new markets in which we may have limited or no experience;
- the risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;
- potential unknown liabilities associated with a business we acquire or in which we invest; and
- increased legal and accounting compliance costs.

Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, facilities, technologies, products and services. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. Also, our acquisitions may not result in the benefits or growth originally anticipated from such acquisitions. As a result of future strategic transactions, we might need to issue additional equity securities, spend our cash, or incur debt (which may only be available on unfavorable terms, if at all) or contingent liabilities, any of which could reduce our

profitability and harm our business. If we are unable to identify suitable acquisitions, investments or strategic relationships, or if we are unable to integrate any acquired businesses, facilities, technologies, offerings and products effectively, our business, financial condition, and results of operations could be materially and adversely affected. Also, while we employ several different methodologies to assess potential business opportunities, the new businesses or investments may not meet or exceed our expectations or desired objectives.

The market for pet telemedicine is immature and uncertain. If the telemedicine market does not develop, develops more slowly than we expect, or encounters negative publicity, or if our approach does not achieve a high level of customer acceptance, the growth and results of our partnership with Vetster may be adversely affected which could result in an impairment of our investment.. The pet telehealth market is, in general, immature and uncertain. It is uncertain whether the telemedicine market and our approach to pet telehealth with Vetster will achieve and sustain high levels of demand, consumer acceptance and market adoption. The COVID- 19 pandemic increased acceptance and utilization of telemedicine services, but it is uncertain whether such increase in demand will continue. Demand for pet telemedicine and telehealth services is affected by a number of factors, many of which are beyond our control. Some of these potential factors include:

- market adoption and ongoing usage of pet telehealth and telemedicine services and solutions;
- awareness and adoption of technology in healthcare generally;
- availability of products and services that compete with ours;
- ability to maintain and expand a network of qualified providers;
- ease of adoption and use;
- features and platform experience;
- performance;
- brand;
- security and privacy; and
- pricing.

Our success will depend to a substantial extent on the willingness of our customers to use, and to increase the frequency and extent of their utilization of, our solution being offered in conjunction with Vetster, as well as on our ability to demonstrate the value of pet telehealth and telemedicine to veterinarians and pet owners. Negative publicity concerning the pet telehealth and telemedicine market could limit market acceptance of our solutions and services.

Financial Risks We are subject to payment- related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business. We accept payments using a variety of methods, including credit and debit cards, PayPal, and checks, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment- related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. As a result, our business and operating results could be adversely affected.

Our business could be adversely affected if we fail to implement and maintain effective disclosure controls and procedures and internal control over financial reporting. In connection with the audit of our financial statements for the fiscal year ending March 31, 2023, we concluded that as of March 31, 2023, our disclosure controls and procedures and our internal control over financial reporting were not effective due to a material weakness relating to [inappropriate] segregation of duties over the preparation, approval and posting of manual journal entries. If we are unable to implement and maintain effective disclosure controls and procedures and remediate the material weaknesses in a timely manner, or if we identify other material weaknesses in the future, our ability to produce accurate and timely financial statements and public reports could be impaired, which could adversely affect our business and financial condition. In addition, investors may lose confidence in our reported information and the market price of our common stock may decline.

Risks Relating to Taxes Taxing authorities may successfully assert that we should have collected, or in the future should collect, sales and use, value added, or similar taxes, and any such assessments could adversely affect our business, financial condition, and results of operations. In the past several years, states have adopted laws that attempt to impose tax collection obligations on out- of- state companies. Additionally, the Supreme Court of the United States (" Supreme Court") ruled in *South Dakota v. Wayfair, Inc. et al, or Wayfair*, that online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer' s state. In response to *Wayfair*, or otherwise, states or local governments may adopt, or begin to enforce, laws requiring us to register, calculate, collect, and remit taxes on sales in their jurisdictions. While we currently collect and remit applicable sales taxes to the extent required in all states in which we sell, a successful assertion by one or more states seeking to tax us on sales that occurred in prior tax years, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state governments or local governments of sales tax collection obligations on out- of- state sellers could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors, and decrease our future sales, which could have a material adverse effect on our business and results of operations. New legislation or regulations, the application of laws and regulations from jurisdictions, or the application of existing laws and regulations to the Internet and commercial online services could similarly result in significant additional taxes on our business. For instance, the Supreme Court' s decision and the enactment and enforcement of laws resulting therefrom could also impact where we are required to file state income taxes. As a result, our effective income tax rate as well as the cost and growth of our business could be materially and adversely affected, which could in turn have a material adverse effect on

our financial condition and results of operations. In addition, because the Company's products and services are available over the Internet, states may claim that the Company is required to do business as a foreign corporation in one or more of those jurisdictions. Failure to qualify as a foreign corporation in a jurisdiction where the Company is required to do so could subject it to taxes and penalties, and such jurisdictions may charge the Company with violations of local laws.

Industry Risks We face significant competition from veterinarians and online and traditional retailers, as well as challenges from strategic alliances amongst our competitors, and may not be able to compete profitably with them. We compete directly and indirectly with veterinarians for the sale of pet medications and other health products. Veterinarians hold a competitive advantage over us because many pet owners may find it more convenient or preferable to purchase these products directly from their veterinarians at the time of an office visit. We also compete directly and indirectly with both online and traditional retailers. Both online and traditional retailers may hold a competitive advantage over us because of longer operating histories, established brand names, greater resources, and / or an established customer base. Online retailers may have a competitive advantage over us because of established affiliate relationships to drive traffic to their website. Traditional retailers may hold a competitive advantage over us because pet owners may prefer to purchase these products from a store instead of online. In addition, we face growing competition from online and multichannel retailers, some of whom may have a lower cost structure than ours, as customers now routinely use computers, tablets, smartphones, and other mobile devices and mobile applications to shop online and compare prices and products in real time. In order to effectively compete in the future, we may be required to offer promotions and other incentives, which may result in lower operating margins and adversely affect the results of operations. We also face a significant challenge from our competitors forming alliances with each other, such as those between online and traditional retailers. These relationships may enable both their online and retail stores to negotiate better pricing and better terms from suppliers by aggregating the demand for products and negotiating volume discounts, which could be a competitive disadvantage to us.

Risks Related to COVID-19 Laws and regulations by various federal and state regulatory authorities regarding the safety and quality of the pet products that we sell. We purchase products from various suppliers, one or more of which might not adhere to product safety requirements or our quality control standards, and we may not be able to identify the deficiency before merchandise ships to our customers. All of our suppliers are required to comply with applicable product safety laws, and we are dependent upon them to ensure such compliance. Any issues of product safety or allegations that the products we sell are in violation of governmental regulations, including, but not limited to, issues involving products manufactured in foreign countries or issues of mislabeling or adulteration, could cause those products to be recalled. If our suppliers fail to manufacture or import merchandise that adheres to our quality control standards, product safety requirements, or applicable governmental regulations, our reputation and brand could be damaged, potentially leading to decreased sales or increases in customer litigation against us. If consumers lose confidence in the safety and quality of the food or other products that we sell or in the suppliers that provide such products, then our sales could be adversely affected. Adverse publicity about these types of concerns, even if not valid, may discourage consumers from buying the products we offer, and such publicity cause disruptions with suppliers.

The COVID-19 global pandemic and related real or perceived sale of contaminated food products by us could result in product liability claims against our suppliers or us, expose us or our suppliers to government enforcement action or private sector litigation, or lead to costly recalls and individual a loss of consumer confidence, any of which could have an adverse effect on our business, financial condition, and results of operations. We may also in the future voluntarily recall or withdraw products that we consider do not meet our standards in order to protect our brand and reputation. While we carry product liability insurance, our insurance may not be adequate to cover all liabilities that we may incur in connection with product liability claims. In addition, we may be unable to continue to maintain our existing insurance coverage or obtain comparable insurance at a reasonable cost, if at all, or secure additional coverage, which may result in future product liability claims being uninsured. Any of these factors could negatively impact our business, financial performance, liquidity and cash flow for an unknown period of time.

Pandemics or health crises, such as COVID-19 has had, and continues to have, a significant impact in the United States and around the world, prompting governments and businesses to take unprecedented measures in response. Such measures have included restrictions on travel and business operations, temporary closures of the businesses, and quarantine and shelter-in-place orders. The COVID-19 pandemic has at times significantly curtailed economic activity in the United States and globally, may adversely affect our results of operations. The outbreak and caused significant volatility and disruption in global financial markets. The continued adverse public health developments, the related government and private sector responsive actions, and the economic effects of the COVID-19 pandemic, including may adversely affect our business operations. It is impossible to predict the effect spread of recent variants, and ultimate impact related containment efforts created, and may continue to contribute to, significant economic disruption in the United States and around the world. A resurgence of the COVID-19 pandemic, as variations of the COVID-19 virus, or the other situation pandemics could adversely affect our business operations. It is continually evolving. The impossible to predict the effect and ultimate impact of the possible resurgence of the COVID-19 pandemic, may disrupt the global supply chain and may cause disruptions to our operations if a significant number of employees are quarantined or if they, the COVID-19 virus, are otherwise limited in their ability to work at our fulfillment center. Additional federal or state mandates could also impact our ability to take or fulfill our customers' orders and operate our business. As an essential business, we have been open during our normal business hours without any material disruptions to our operations. We are dedicated to making every effort to ensure the other pandemic health and safety of our employees. We

have **In response to the COVID- 19 pandemic, we** implemented working from home where possible and enhanced disinfection and social distancing within our workplace. **Many of Future COVID- 19 surges our or variants** personnel are working remotely and it is possible that this could have a negative impact on the execution of our business plans and operations. If a natural disaster, power outage, connectivity issue, or other event occurs that impacts our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in consumer privacy, IT security and fraud concerns as well as operational inefficiencies. **The other pandemics, may result in us again encouraging employees to work from home, which could adversely impact costs,** operations of our fulfillment center may be substantially disrupted by additional federal or state mandates ordering shutdowns or by **and morale, as well as result in consumer privacy, IT security, and fraud concerns. Governmental lockdowns and the other inability restrictions at the onset of the our employees to travel to work due to COVID- 19 .The pandemic negatively impacted, and in the event of a future resurgence or a different pandemic or health crisis may again negatively impact, the operations of and inability ability** to ship from our fulfillment center **due to . Our future results of operations and overall financial performance could be uncertain should a new virus strain of** COVID- 19 outbreak, a disruptions to the operations of our fulfillment center, or increased costs in fulfillment center capacity may negatively impact our financial performance or slow our future growth. The uncertainty around the duration of business disruptions and the extent of the spread of the virus and the emergence of new **pandemic, or variants** of the virus in the United States and to other **health crisis** areas of the world will likely continue to adversely impact the national and global economy and negatively impact consumer spending. Any of these outcomes could have a material adverse impact on our **occur** business, financial condition, operating results and ability to execute and capitalize on our strategies. The full extent of COVID- 19's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets and any new information that may emerge concerning the severity and new variants of the virus, its spread to other regions as well as the actions taken to contain it, among others. Securities Risks Our stock price fluctuates from time to time and may fall below expectations of securities analysts and investors, and could subject us to litigation, which may result in you suffering a loss on your investment. The market price of our common stock may fluctuate significantly in response to a number of factors, many of which are out of our control. These factors include: **quarterly variations in operating results;** changes in accounting treatments or principles; announcements by us or our competitors of new products and services offerings; significant contracts, acquisitions, or strategic relationships; additions or departures of key personnel; any future sales of our common stock or other securities; stock market price and volume fluctuations of publicly traded companies; and general political, economic, and market conditions. In some future quarter our operating results may fall below the expectations of securities analysts and investors, which could result in a decrease in the trading price of our common stock. In addition, if the Company fails to meet expectations related to future growth, profitability, dividends, or other market expectations, the price of the Company's common stock may decline significantly, which could have a material adverse impact on investor confidence and employee retention. In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm our business and operating results. We may issue additional shares of preferred stock that could defer a change of control or dilute the interests of our common shareholders. Our charter documents could defer a takeover effort which could inhibit your ability to receive an acquisition premium for your shares. Our charter permits our Board of Directors to issue up to 5. 0 million shares of preferred stock without shareholder approval. Currently there are 2, 500 shares of our Convertible Preferred Stock issued and outstanding. This leaves slightly less than 5. 0 million shares of preferred stock available for issuance at the discretion of our Board of Directors. These shares, if issued, could contain dividend, liquidation, conversion, voting, or other rights which could adversely affect the rights of our common shareholders and which could also be utilized, under some circumstances, as a method of discouraging, delaying, or preventing a change in control. Provisions of our articles of incorporation, bylaws and Florida law could make it more difficult for a third party to acquire us, even if many of our shareholders believe it is in their best interest. Our ability to pay regular dividends to our shareholders and the amounts of any such dividends are subject to the discretion of the Board and may be limited by our financial condition, or limitations under Florida law. We have paid **regular** dividends to our shareholders since 2009 **and it is currently anticipated that we will continue to pay regular quarterly dividends,** any such determination to pay dividends and the amounts thereof will be at the discretion of the Board and will be dependent on then- existing conditions, including our financial condition, income, legal requirements, including limitations under Florida law, and other factors the Board deems relevant. The Board has previously decided, and may in the future decide, in its sole discretion, to change the amount or frequency of dividends or discontinue the payment of dividends entirely. For **example, the Board may determine to reserve and / or utilize cash resources that would otherwise be available for distributions in order to fund additional strategic transactions or investments in our business. For** these reasons, shareholders **will should** not be able to rely on dividends to receive a return on investment. Accordingly, realization of any gain on shares of our common stock may depend **solely** on the appreciation of the price of our common stock, which may not occur.