HealthWarehouse.com, Inc.
Form 10-Q
November 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2013

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 0-13117

HealthWarehouse.com, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-2413505 (I.R.S. Employer Identification No.)
7107 Industrial Road, Florence, Kentucky (Address of Principal Executive Offices)	41042 (Zip Code)

(800) 748-7001
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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. Yes x No o

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). Yes x No ¨

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer o

Non-accelerated Filer o (Do not check if a smaller reporting company)

Smaller Reporting Company x

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

There were 26,529,091 shares of Common Stock outstanding as of November 22, 2013

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HEALTHWAREHOUSE.COM, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets	September 30, 2013 (unaudited)	December 31, 2012
Current assets:		
Cash	$ 53,980	$ -
Restricted cash	-	850,002
Accounts receivable, net	269,916	214,973
Inventories - finished goods, net	392,627	395,584
Prepaid expenses and other current assets	82,425	52,292
Total current assets	798,948	1,512,851
Property and equipment, net	721,737	768,021
Total assets	$ 1,520,685	$ 2,280,872
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable – trade	$ 3,335,838	$ 2,973,774
Accounts payable – related parties	200,254	147,933
Accrued expenses and other current liabilities	803,588	1,942,769
Deferred revenue	112,915	73,787
Current portion of equipment lease payable	54,408	49,122
Convertible notes	-	1,000,000
Notes payable and other advances, net of debt discount of $234,500 and $44,363 as of September 30, 2013 and December 31, 2012, respectively	301,500	1,955,637
Note payable and other advances – related parties	42,095	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 September 30, 2013 and December 31, 2012 (aggregate liquidation preference of $1,000,000)	1,000,000	1,000,000
Total current liabilities	5,850,598	9,908,022
Long term liabilities:		
Long term portion of equipment lease payable	124,738	166,286
Total long term liabilities	124,738	166,286
Total liabilities	5,975,336	10,074,308
Commitments and contingencies		

Stockholders' deficiency:				
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of September 30, 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 September 30, 2013 and December 31, 2012, respectively (aggregate liquidation preference of $4,200,398 and $3,990,877 as of September 30, 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 September 30, 2013 and December 31, 2012, respectively		27,708		13,031
Additional paid-in capital		26,908,458		16,460,385
Employee advances		(32,126)		(18,858)
Treasury stock, at cost, 1,179,212 shares as of September 30, 2013 and December 31, 2012		(3,419,715)		(3,419,715)
Accumulated deficit		(27,939,398)		(20,828,674)
Total stockholders' deficiency		(4,454,651)		(7,793,436)
Total liabilities and stockholders' deficiency	$	1,520,685	$	2,280,872

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	$ 2,399,256	$ 2,634,181	$ 7,483,933	$ 8,785,114
Cost of sales	1,196,303	1,389,328	3,770,579	4,609,583
Gross profit	1,202,953	1,244,853	3,713,354	4,175,531
Operating expenses:				
Selling, general and administrative expenses	2,166,749	2,563,726	6,102,298	8,072,562
Loss from operations	(963,796)	(1,318,873)	(2,388,944)	(3,897,031)
Other income (expense):				
Loss on extinguishment of debt	-	-	(2,792,900)	-
Other income	-	1,300	-	5,058
Interest expense	(57,333)	(288,631)	(186,638)	(867,213)
Total other expense	(57,333)	(287,331)	(2,979,538)	(862,155)
Net loss	(1,021,129)	(1,606,204)	(5,368,482)	(4,759,186)
Preferred stock:				
Series B convertible contractual dividends	(69,840)	(65,271)	(209,520)	(195,813)
Series B convertible deemed dividends	-	-	(1,532,722)	-
Series C redeemable deemed dividends	-	(247,774)	-	(433,606)
Loss attributable to common stockholders	$ (1,090,969)	$ (1,919,249)	$ (7,110,724)	$ (5,388,605)
Per share data:				
Net loss – basic and diluted	$ (0.04)	$ (0.14)	$ (0.24)	$ (0.44)

Series B convertible contractual dividends	-	-	(0.01)	(0.02)
Series B convertible deemed dividends	-	-	(0.07)	-
Series C redeemable deemed dividends	-	(0.02)	-	(0.04)
Net loss attributable to common stockholders - basic and diluted	$ (0.04)	$ (0.16)	$ (0.32)	$ (0.50)
Weighted average number of common shares outstanding - basic and diluted	26,101,517	11,741,437	22,347,613	10,736,828

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(Unaudited)

	Convertible Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Employee Advances	Treasury Stock		Accumulated Deficit
	Shares	Amount	Shares	Amount			Shares	Amount	
Balances, December 31, 2012	394,685	$395	13,030,397	$13,031	$16,460,385	$(18,858)	1,179,212	$(3,419,715)	$(20,828,674
Stock-based compensation	-	-	-	-	476,096	-	-	-	-
Warrants issued to 2012 private placement investors	-	-	-	-	487,200	-	-	-	-
Issuance of Series B preferred stock as payment-in-kind for dividend	27,630	27	-	-	261,057	-	-	-	-
Cashless exercise of warrants into common stock	-	-	10,342,931	10,342	(10,342)	-	-	-	-
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	(209,520
Beneficial conversion feature and deemed									

dividend on Series B convertible preferred stock	-	-	-	-	1,532,722	-	-	-	(1,532,722
Warrants issued as debt discount in connection with notes payable	-	-	-	-	315,300	-	-	-	-
Conversion of notes and accounts payable into common stock and warrants	-	-	833,000	833	3,625,067	-	-	-	-
Issuance of common stock and warrants for cash	-	-	3,501,975	3,502	3,498,473	-	-	-	-
Imputed value of services contributed	-	-	-	-	262,500	-	-	-	-
Change in fair value of collateral securing employee advances	-	-	-	-	-	(13,268)	-	-	-
Net loss	-	-	-	-	-	-	-	-	(5,368,482
Balances, September 30, 2013	422,315	$422	27,708,303	$27,708	$26,908,458	$(32,126)	1,179,212	$(3,419,715)	$(27,939,398

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

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

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities		
Net loss	$ (5,368,482)	$ (4,759,186)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	45,297	24,236
Change in fair value of collateral securing employee advances	(13,268)	-
Depreciation and amortization	114,874	250,717
Stock-based compensation	476,096	818,585
Warrants issued to 2012 private placement investors	487,200	-
Loss on extinguishment of notes and accounts payable	2,792,900	-
Imputed value of services contributed	262,500	-
Amortization of debt discount	125,163	647,133
Impairment of intangible assets	-	264,447
Changes in operating assets and liabilities:		
Accounts receivable	(100,240)	52,358
Inventories - finished goods	2,957	66,864
Prepaid expenses and other current assets	(30,133)	4,534
Accounts payable – trade	362,064	1,492,462
Accounts payable – related parties	174,321	22,001
Accrued expenses and other current liabilities	(251,615)	283,946
Deferred revenue	39,128	-
Net cash used in operating activities	(881,238)	(831,903)
Cash flows from investing activities		
Change in restricted cash	850,002	-
Changes in employee advances	-	136,990
Website development costs	(68,590)	-
Net cash provided by investing activities	781,412	136,990
Cash flows from financing activities		
Principal payments on equipment leases payable	(36,262)	(43,518)
Proceeds from exercise of common stock options	-	26,662
Proceeds from issuance of notes payable	500,000	-
Repayment of notes payable	(2,004,000)	-
Repayment of convertible notes payable	(1,000,000)	-

Proceeds from the sale of common stock [1]		2,651,973		475,004
Cash overdraft		-		(71,155)
Proceeds from notes payable and other advances – related parties		56,000		605,000
Repayment of notes payable and other advances – related parties		(13,905)		(293,812)
Net cash provided by financing activities		153,806		698,181
Net increase in cash		53,980		3,268
Cash - beginning of period		-		40
Cash - end of period	$	53,980	$	3,308

[1] - Excludes $850,002 of cash received during 2012 but closed on during the nine months ended September 30, 2013

Cash paid for:				
Interest	$	416,369	$	24,148
Taxes	$	899	$	-

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Continued)

	For the Nine Months Ended September 30,			
	2013		2012	
Non-cash investing and financing activities:				
Issuance of Series B preferred stock for settlement of accrued dividends	$	261,084	$	244,001
Cashless exercise of warrants into common stock	$	10,342	$	1,466
Cashless exercise of options into common stock	$	-	$	93
Warrants issued as debt discount in connection with notes payable	$	315,300	$	-
Accrual of contractual dividends on Series B convertible preferred stock	$	209,520	$	195,813
Deemed dividends on Series B convertible preferred stock	$	1,532,722	$	-
Reclassification of accounts payable - trade to equipment lease payable	$	-	$	257,583
Deemed dividend – redeemable Series C preferred stock	$	-	$	433,606
Common stock and warrants issued in exchange of notes and accounts payable	$	3,625,900	$	-

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the operating results for the full year ending December 31, 2013. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related disclosures of the Company as of December 31, 2012 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on July 23, 2013.

2. Going Concern and Management's Liquidity Plans

Since inception, the Company has financed its operations primarily through debt and equity financings and advances from related parties. As of September 30, 2013, the Company had a working capital deficiency of $5,051,650 and an accumulated deficit of $27,939,398. During the nine months ended September 30, 2013 and year ended December 31, 2012, the Company incurred net losses of $5,368,482 and $5,574,775 and used cash in operating activities of $881,238 and $947,911, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Subsequent to September 30, 2013, the Company (a) raised an aggregate of $200,000 in debt financings; and (b) continues to incur net losses, use cash in operating activities and experience cash and working capital constraints. See Note 11.

On February 13, 2013, the Company received a Notice of Redemption related to its Series C Redeemable Preferred Stock aggregating $1,000,000 (see Note 7). As a result of receiving the Notice of Redemption, the Company must now apply all of its assets to redemption of the Series C Preferred Stock and to no other corporate purpose, except to the extent prohibited by Delaware law governing distributions to stockholders (the Company is not permitted to utilize toward the redemption those assets required to pay its debts as they come due and those assets required to continue as a going concern).

The Company recognizes it will need to raise additional capital in order to fund operations, meet its payment obligations and execute its business plan. There is no assurance that additional financing will be available when

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

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Summary of Significant Accounting Policies

Principles of Consolidation

On June 4, 2013, the Company formed a wholly-owned subsidiary called Pagosa Health LLC ("Pagosa"). The condensed consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV and Pagosa, its wholly-owned subsidiaries. ION Holding NV and ION Belgium NV are inactive subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Reclassifications

Certain accounts in the prior period condensed consolidated financial statements have been reclassified for comparison purposes to conform to the presentation of the current period condensed consolidated financial statements. These reclassifications had no effect on the previously reported net loss.

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 condensed 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 and consist of the following:

September 30,

	2013	2012
Options	2,188,650	2,025,475
Warrants	2,192,846	562,846
Series B Convertible Preferred Stock	3,438,275	1,973,427
Convertible Promissory Notes	-	529,100
Total potentially dilutive shares	7,819,771	5,090,848

Stock-Based Compensation

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

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Summary of Significant Accounting Policies – Continued

Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU addresses the requirements regarding the financial statement presentation of an unrecognized tax benefit within Accounting Standards Codification ("ASC") Topic 740 for the purpose of providing consistency between the financial reporting of U.S. GAAP entities. Generally, this ASU provides guidance for the preparation of financial statements and disclosures when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for periods beginning after December 15, 2013 and is not expected to have any impact on the Company's condensed consolidated financial statements or disclosures.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2013	December 31, 2012
Deferred rent	$ 44,466	$ 39,100
Advertising	75,000	75,000
Salaries and benefits	175,735	166,118
Professional fees	-	81,872
Dividends payable	209,520	261,084
Accrued interest	44,803	410,101
Due to investors (1)	-	850,002
Customer payables	216,090	51,333
Other	37,974	8,159
Total	$ 803,588	$ 1,942,769

(1) - Proceeds received from investors in advance of equity offering closing.

5. Convertible Notes Payable

On February 1, 2013, the Company repaid convertible notes with an outstanding principal balance of $1,000,000 plus outstanding accrued interest of $163,861. The convertible notes bore interest at a rate of 7% per annum compounded annually and were due on December 31, 2012. The Company recorded amortization of debt discount associated with convertible notes payable of $82,616 and $247,849 for the three and nine months ended September 30, 2012, respectively, using the effective interest method. As of December 31, 2012, the debt discount had been fully

amortized.

6. Notes Payable

On February 1, 2013, the Company repaid notes with an outstanding principal balance of $2,000,000 plus outstanding accrued interest of $199,260. The notes bore interest at a rate of 7% per annum and were due on January 15, 2013.

On March 28, 2013, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with a lender (the "Lender"). Under the terms of the Loan Agreement, the Company borrowed $500,000 from the Lender (the “Loan”). The Loan is evidenced by a promissory note (the “March Note”) and bears interest on the unpaid principal balance of the March Note until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (as of September 30, 2013, the Prime Rate was 3.25% per annum). Under the terms of the Loan Agreement, the Company has agreed to make monthly payments of accrued interest on the first day of every month, beginning on May 1, 2013. The principal amount and all unpaid accrued interest on the March Note is payable on March 1, 2015, or earlier in the event of default or a sale or liquidation of the Company. The Loan may be prepaid in whole or in part at any time by the Company without penalty. On November 25, 2013, the Lender executed a document waiving violations of certain historical EBITDAS debt covenants. As of September 30, 2013, this note has been classified as current because meeting the current EBITDAS debt covenant for the year ended December 31, 2013 can’t be characterized as likely. The Company is currently in active discussions with the Lender regarding the potential debt covenant violation.

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

6. Notes Payable – Continued

The Company granted the Lender a first, priority security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Loan. The Loan Agreement contains customary negative covenants restricting the Company's ability to take certain actions without the Lender's consent, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. Upon the occurrence of an event of default, the Lender has the right to impose interest at a rate equal to five percent (5.0%) per annum above the otherwise applicable interest rate (the "Default Rate"). The repayment of the Loan may be accelerated prior to the maturity date upon certain specified events of default, including failure to pay, bankruptcy, breach of covenant, and breach of representations and warranties.

In consideration of the Loan, the Company granted the Lender a five-year warrant to purchase 750,000 shares of common stock at an exercise price of $0.35 per share. The warrant contains customary anti-dilution provisions. The warrant had a relative fair value of $315,300 which was setup as debt discount and is being amortized using the effective interest method over the term of the Loan. Including the value of the warrant, the March Note had an effective interest rate of 40% per annum.

On August 15, 2013, a related party advanced $56,000 to the Company. Subsequently, $7,000 of that advance was repaid to the related party and the Company issued a promissory note for the principal balance of $49,000 (the "Original Note"). The Original Note bears interest at a rate of 10% per annum. The Original Note had a maturity date of November 7, 2013. Through November 21, 2013, the Company repaid $6,905 of the principal of the Original Note and a replacement note was issued for the remaining principal balance of $42,095 (the "Replacement Note"). The Replacement Note waives any existing default under the Original Note and has a maturity date of May 31, 2014. All other terms of the Replacement Note and Original Note are the same.

The Company recorded amortization of debt discount associated with notes payable of $40,400 and $125,163 for the three and nine months ended September 30, 2013, respectively, and $133,095 and $399,284 for the three and nine months ended September 30, 2012, respectively, using the effective interest method.

See Note 7 – Stockholders' Deficiency – Common Stock for details regarding the conversion of outstanding notes payable – related parties into common stock and warrants.

See Note 11 – Subsequent Events for additional details.

7. Stockholders' Deficiency

Common Stock

During the nine months ended September 30, 2013, pursuant to a private placement offering of units that commenced on October 4, 2012 (the "Private Placement"), the Company received an aggregate of $3,501,975 of proceeds related to the sale of 3,501,975 units at a price of $1.00 per unit. The aggregate amount includes $500,000, which was received from an officer, and $850,002, which was received during the fourth quarter of 2012 and classified as restricted cash

as of December 31, 2012. Each unit consists of (i) one share of the Company's common stock and (ii) a five-year warrant to purchase three shares of the Company's common stock at an exercise price of $0.25 per share, such that warrants to purchase an aggregate of 10,505,925 shares of common stock were issued. Substantially all of the proceeds from the sale of the units were used by the Company to satisfy all of its obligations under the convertible notes and notes (see Notes 5 and 6). In connection with the Private Placement, an officer has entered into repurchase agreements with certain purchasers of units, pursuant to which he has agreed to repurchase, subject to certain conditions, one-half of these holder's units at a purchase price of $1.00 per unit if the closing price of the Common Stock is less than $0.25 on five consecutive trading days at any time within one year of February 1, 2013. Cape Bear, which holds a substantial equity position in the Company, also entered into repurchase agreements with certain purchasers, other than the officer, that are substantially similar to the officer's agreements, except that Cape Bear's obligations are secured by a lien over certain real estate.

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

7. Stockholders' Deficiency – Continued

Series B Preferred Stock

On January 1, 2013, the Company issued 27,630 shares of Series B Convertible Preferred Stock valued at $261,084, representing approximately $0.66 in value per share of Series B Preferred Stock outstanding to the Series B Convertible Preferred Stockholders as payment in kind for dividends (the "2013 Series B Dividend"). In connection with the 2013 Series B Dividend, the Company recognized a beneficial conversion feature of $202,305 during the nine months ended September 30, 2013, which represents the difference between the commitment date value of the shares and the effective conversion price. In connection with the outstanding preferred stock, during the three and nine months ended September 30, 2013, the Company recorded $69,840 and $209,520 as contractual dividends, respectively, and recorded $65,271 and $195,813 during the three and nine months ended September 30, 2012, respectively. As of December 31, 2012, February 1, 2013, March 13, 2013 and April 11, 2013, Series B holders were entitled to convert into 5.00, 7.61, 8.07 and 8.14 shares, respectively, of the Company's common stock for each share of Series B Preferred Stock due to the anti-dilution provision. The anti-dilution provision represents a contingent beneficial conversion feature. As of September 30, 2013, an incremental 1,326,700 shares of common stock are issuable at conversion of the Series B Convertible Preferred Stock as compared to the original terms. Using the commitment date common stock price in effect, the commitment date value of the incremental shares is $3,348,975. However, recognition of beneficial conversion features is limited to the aggregate gross proceeds allocated to the preferred stock of $3,199,689 (422,315 shares of Series B Convertible Preferred Stock times $9.45 per share less the proceeds allocated to the warrants of $791,188) less the $1,666,967 beneficial conversion feature already recognized on the original 365,265 shares of Series B Preferred Stock (prior to the issuance of additional shares as payment-in-kind in lieu of cash dividends) and the $202,305 recognized related to the 2013 Series B Dividend. Due to these limitations, a beneficial conversion feature of $0 and $1,330,417 related to the incremental shares was recognized during the three and nine months ended September 30, 2013, respectively.

Series C Preferred Stock

On February 13, 2013, the Company received a Notice of Redemption of Series C Preferred Stock. As a result of the Convertible Notes coming due and not being paid on December 31, 2012, the Company accelerated the accretion rate of the deemed dividend on the Redeemable Preferred Stock – Series C and reclassified the Redeemable Preferred Stock – Series C from temporary equity to current liabilities. The Company recorded Series C deemed dividends of $247,774 and $433,606 during the three and nine months ended September 30, 2012, respectively. As of December 31, 2012, the discount associated with the Series C Preferred Stock was fully amortized.

Stock Options

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

	For The Three Months Ended September 30,	For The Nine Months Ended September 30,

	2013	2012	2013	2012
Risk free interest rate	n/a	n/a	1.13% to 1.50%	1.04%
Dividend yield	n/a	n/a	0.00%	0.00%
Expected volatility	n/a	n/a	166.0% to 175.0%	172.2%
Expected life in years	n/a	n/a	6.00	6.00

The weighted average fair value of the stock options granted during the nine months ended September 30, 2013 and 2012 was $1.17 and $6.52 per share, respectively. There were no stock options granted during the three months ended September 30, 2013 and 2012.

On February 15, 2013, the Company granted options to employees to purchase an aggregate of 330,500 shares of common stock under the 2009 Plan at an exercise price of $1.60 per share for an aggregate grant date value of $395,041. The options vest over a three year period and have a term of ten years.

On June 19, 2013, the Company granted an option to a director to purchase 100,000 shares of common stock under the 2009 Plan at an exercise price of $1.45 per share for a grant date value of $109,600. The option vests over a three year period and has a term of ten years.

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7. Stockholders' Deficiency – Continued

Stock Options – Continued

Stock-based compensation expense related to stock options was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $143,113 and $469,356 for the three and nine months ended September 30, 2013, respectively, and $268,955 and $249,854 for the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, stock-based compensation expense related to stock options of $1,775,262 remains unamortized, including $883,693 which is being amortized over the weighted average remaining period of 1.9 years. The remaining $891,569 is related to a performance based option where vesting is currently deemed to be improbable and no amount is being amortized.

A summary of the stock option activity during the nine months ended September 30, 2013 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, January 1, 2013	2,183,899	$ 3.42		
Granted	430,500	1.57		
Exercised	-	-		
Forfeited	(425,749)	4.20		
Outstanding, September 30, 2013	2,188,650	$ 2.90	5.4	$ -
Exercisable, September 30, 2013	1,210,151	$ 2.72	4.3	$ -

The following table presents information related to stock options at September 30, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Options
	$ 1.57	874,400	$ 1.58	2.0	485,900

$0.80 - $2.20					
$2.21 - $3.80	3.21	858,250	2.95	5.0	490,917
$3.81 - $6.99	4.86	456,000	4.60	7.6	233,334
	$ 2.90	2,188,650	$ 2.72	4.3	1,210,151

Warrants

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
Risk free interest rate	n/a	n/a	0.87%	n/a
Dividend yield	n/a	n/a	0.00%	n/a
Expected volatility	n/a	n/a	164.3%	n/a
Expected life in years	n/a	n/a	5.00	n/a

The weighted average fair value of the stock warrants granted during the nine months ended September 30, 2013 was $1.36 per share. There were no warrants granted during the three months ended September 30, 2013 or the three and nine months ended September 30, 2012.

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7. Stockholders' Deficiency – Continued

Warrants – Continued

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

See Note 6 – Notes Payable for details regarding warrants granted in connection with the issuance of notes payable.

See Note 7 – Stockholders' Deficiency – Common Stock for details regarding warrants granted in connection with the Private Placement and the conversion of related party notes payable, other advances and accounts payable into equity.

During the nine months ended September 30, 2013, the Company issued an aggregate of 10,342,931 shares of common stock to several holders of warrants who elected to exercise warrants to purchase 12,505,023 shares of common stock on a "cashless" basis under the terms of the warrants. The warrants had exercise prices of $0.25 per share (11,346,675 gross shares), $0.35 per share (750,000 gross shares), and $1.00 per share (408,348 gross shares). The aggregate intrinsic value of the warrants exercised was $16,983,736 for the nine months ended September 30, 2013.

A stock-based compensation credit related to the mark-to-market adjustment for consultant warrants for the three months ended September 30, 2013 was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $20,424. During the nine months ended September 30, 2013, the Company recorded stock-based compensation expense of $493,940 related to warrants. There was no stock-based compensation expense related to warrants during the three and nine months ended September 30, 2012. As of September 30, 2013, stock-based compensation expense related to warrants of $591,200 remains unamortized, including $14,360 which is being amortized over the weighted average remaining period of 2.0 years. The remaining $576,840 is related to a performance based warrant where vesting is currently deemed to be improbable and no amount is being amortized.

A summary of the stock warrant activity during the nine months ended September 30, 2013 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, January 1, 2013	592,846	$ 3.01		
Granted	13,955,023	0.28		
Exercised	(12,505,023)	0.28		
Forfeited	-	-		

Outstanding, September 30, 2013	2,042,846	$	1.05	1.3	$	724,348
Exercisable, September 30, 2013	1,762,846	$	0.72	1.3	$	724,348

The following table presents information related to stock warrants at September 30, 2013:

	Warrants Outstanding		Warrants Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
$0.25 - $0.35	$ 0.25	1,450,000	$ 0.25	4.4	1,450,000
$0.36 - $3.00	2.91	562,846	2.91	2.9	312,846
$3.01 - $4.95	4.95	30,000	-	-	-
	$ 1.05	2,042,846	$ 0.72	1.3	1,762,846

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
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7. Stockholders' Deficiency – Continued

Services Contributed

Effective January 1, 2013, an executive officer of the Company waived payment for services contributed during 2013. As a result, the Company imputed the value of the services contributed and recorded salary expense of $87,500 and $262,500 for the three and nine months ended September 30, 2013, respectively, with a corresponding credit to stockholders' deficiency.

8. Commitments and Contingent Liabilities

Operating Leases

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

On June 7, 2013, Pagosa signed a three year lease for $1,000 per month to house an office, pharmacy as well as inventory and is located in Lawrenceburg, Indiana. A redundant facility is required by Verified Internet Pharmacy Practice Sites ("VIPPS") and a newly acquired contract. Pagosa will serve as a backup facility and will function as a closed door pharmacy. On July 8, 2013, the parties agreed to extend the lease for two additional years, such that the new termination date is now June 7, 2018.

On October 10, 2013, the Company entered into a sublease agreement for 15,000 square feet of warehouse space at the Company's corporate headquarters in Florence, Kentucky. The initial term of the sublease expires on January 31, 2014 with rent of $4,688 per month. After the expiration of the initial term, the tenant may extend the term of the sublease agreement on a month to month basis.

During the three and nine months ended September 30, 2013, the Company recorded aggregate rent expense of $47,921 and $141,257, respectively, and $50,136 and $148,900 during the three and nine months ended September 30, 2012, respectively.

Litigation

On February 9, 2012, two of our former stockholders, Rock Castle and Jason Smith ("Plaintiffs"), filed suit against the Company in the Hamilton County, Ohio Court of Common Pleas, alleging that the Company had breached the terms of certain stock options the Company granted to the Plaintiffs in connection with the Company's now-terminated oral consulting arrangements with the Plaintiffs, by among other things, refusing Plaintiffs' purported exercise of options to purchase 233,332 shares of the Company's common stock at an exercise price of $2.00 per share in December 2011. Plaintiffs have requested that, among other things, the court require the Company 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 the

Company in connection with its purchase of shares of its common stock from Plaintiffs in September 2011. On April 26, 2013, Plaintiffs dismissed Mr. Singer from the lawsuit. Trial of the case is currently scheduled for April of 2014. The Company denies all of the Plaintiffs' claims and intends to contest this matter vigorously.

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HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
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8. Commitments and Contingent Liabilities – Continued

Litigation – Continued

On March 20, 2013, a complaint was filed in the Delaware Court of Chancery by two shareholders of the Company, 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. The Company filed an answer to the complaint on April 12, 2013. On May 13, 2013, the Company publicly announced that the Board of Directors had set the date for the Company's 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, entered into 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, the Company's 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 the stockholders of the Company. On September 24, 2013, this action was dismissed without prejudice by a joint stipulation of dismissal.

On April 23, 2013, the Company's Board of Directors formed an Independent Committee, chaired by Youssef Bennani, a director and Chairman of the Company's Audit Committee, with the exclusive power and plenary authority to investigate, review, and evaluate claims and demands made in certain letters the Company had received. The Company had received three letters from stockholders alleging certain breaches of fiduciary duties by directors of the Company and demanding that the Company commence investigations of the alleged conduct. On March 1, 2013, the Company received a letter on behalf of the holders of the Company's Series B Preferred Stock ("Preferred Holders") alleging that a convicted felon appears to be a consultant to the Company, owes the Company money, and exercises control over the Company. On March 8, 2013, the Company 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 the Company investigate legal claims against those directors. The letter alleges that the director designee of the holders of the Company's Series B Preferred Stock and the director designee of New Atlantic Ventures Fund III, L.P. ("NAV") acted in concert to attempt to scuttle the Company's recent financing plan. The letter also alleged that the director designee of the Preferred Holders and the director designee of NAV sought to prevent the Company from paying back its lenders in 2010 and 2011. On March 18, 2013, the Company 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 the Company (i) investigate alleged breaches of confidentiality and fiduciary duties by the Company's 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 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 the Company and its 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 no evidence supporting allegations in the Corona letter that then-directors Backus and Stecker breached their fiduciary duties to the Company in that they "attempted to scuttle the Company's 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. The Company's Board of Directors concurred in the Independent Committee's findings and conclusions.

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
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8. Commitments and Contingent Liabilities – Continued

Litigation – Continued

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 the chief executive officer of the Company and against the Company, 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 the Company which the entire board of directors approved. The derivative complaint seeks unspecified compensatory damages and other relief. The Company and the individual defendants believe that the allegations stated in the complaint are without merit and they intend to defend themselves 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. The Company 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 the Company's entire board. The Company and the individual defendants continue to believe the allegations are without merit and intend to vigorously defend themselves against the allegations. On October 3, 2013, the individual director defendants moved to dismiss the amended complaint, and the Company 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 the Company 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. Plaintiff's answering brief is due by December 13, 2013, and defendants' reply brief is due by January 10, 2014.

On May 15, 2013, a former consultant filed suit in Boone County, Kentucky Circuit Court alleging breach of contract and unjust enrichment for unpaid consulting fees and expenses of approximately $27,000. The Company filed an answer to the complaint on July 22, 2013 and intends to vigorously defend itself against the allegations.

On October 11, 2013, two former directors of the Company sent a letter demanding repayment of legal fees and expenses ($80,766 of previously incurred expenses plus future expenses) pursuant to certain Company indemnification and advancement provisions. On November 13, 2013, following the receipt of the Special Committee report, the Company agreed to indemnify the two former directors for their reasonable legal fees and expenses up to $85,000 less any amount paid to the directors under the Company's directors' and officers' insurance policy. On November 14, 2013, the former directors filed a verified complaint and a motion for expedited proceedings for advancement in the Delaware Court of Chancery. The Company has not yet filed a response to the complaint.

In the normal course of business the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and we accrue for adverse outcomes as they

become probable and estimable. Currently, other than discussed above, the Company is not involved in any such material matters.

Settlement Agreement

On February 22, 2013, the Company entered into a settlement agreement with a counterparty for amounts owed related to the return of expired goods and inventory and the Company wrote down the accounts receivable to the settlement amount as of December 31, 2012. On February 28, 2013, the Company received $50,000 in connection with the agreement in complete satisfaction of all outstanding and past due accounts receivable from the counterparty, such that there was no balance due to the Company as of September 30, 2013.

9. Concentrations

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

During the three months ended September 30, 2013, two vendors represented 63% and 12% of total inventory purchases, respectively. During the nine months ended September 30, 2013, two vendors represented 60% and 15% of total inventory purchases, respectively. During the three months ended September 30, 2012, two vendors represented 34% and 24% of total inventory purchases. During the nine months ended September 30, 2012, three vendors represented 34%, 13% and 12% of total inventory purchases.

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9. Concentrations - Continued

As of September 30, 2013, there were no accounts receivable concentrations. As of December 31, 2012, two companies represented approximately 18% and 14% of accounts receivable.

10. 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. During the three and nine months ended September 30, 2013, a director was paid $9,000 for general financial and business consulting. During the three and nine months ended September 30, 2012, the director was paid $30,000 and $73,800, respectively, for general financial and business consulting.

From March 2011 to April 2013, a wife of a director served as the agent for the Company's D&O insurance. During the three and nine months ended September 30, 2013, the Company recorded insurance premium expense of $0 and $18,800, respectively. During the three and nine months ended September 30, 2012, the Company recorded insurance premium expense of $14,100 and $37,600, respectively.

See Note 7 – Stockholders' Deficiency – Common Stock for details regarding the exchange of common stock and warrants in satisfaction of related party notes payable, advances and accounts payable.

11. Subsequent Events

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

Related Party Advances

Subsequent to September 30, 2013, the Company repaid an officer approximately $9,000. As of September 30, 2013, the outstanding payable to the officer was approximately $92,000.

Notes Payable

On October 15, 2013, the Company received an additional $100,000 from a lender, which brought the face value of the September Note to $600,000 pursuant to an Amended and Restated Promissory Note (the "September Note"), effective September 30, 2013, which supersedes the March Note with the same Lender. The September Note contains financial covenants which require the Company to meet certain minimum targets for earnings before interest, taxes and non-cash expenses, including depreciation, amortization and stock-based compensation ("EBITDAS") for the calendar quarters and years ended between December 31, 2013 and 2014, inclusive. In addition, the September Note

extended the deadline for providing the March 31, 2013 and June 30, 2013 quarterly financial statements and financial covenant certifications from 45 days after quarter end to October 31, 2013. The remainder of the material September Note terms are unchanged from the March Note, including the March 1, 2015 maturity date. In consideration of the Lender providing additional funds and entering into the September Note, the Company granted the Lender a five-year warrant to purchase 150,000 shares of common stock at an exercise price of $0.35 per share. The warrant contains customary anti-dilution provisions. The warrant had a relative fair value of $51,200 which was set up as debt discount and will be amortized using the effective interest method over the term of the September Note. Including the value of warrants issued in connection with the March Note and September Note, the September Note had an effective interest rate of 41% per annum. On November 25, 2013, the lender executed a document waiving the Company's non-compliance with the deadline to deliver September 30, 2013 financial statements.

On October 30, 2013, the Company issued a note payable with a principal amount of $100,000 to a lender. The note bears interest on the unpaid principal balance until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (as of September 30, 2013, the Prime Rate was 3.25% per annum). Under the terms of the note, the Company has agreed to make monthly payments of accrued interest on the first day of every month, beginning on December 1, 2013. The principal amount and all unpaid accrued interest is payable on November 1, 2015 but the Company’s obligations are unsecured and are subordinate to its obligations pursuant to the September Note described above. The Loan may be prepaid in whole or in part at any time by the Company without penalty. In consideration of the note payable, the Company issued to the lender a five-year warrant to purchase 150,000 shares of common stock at an exercise price of $0.35 per share. The warrant contains customary anti-dilution provisions. The warrant had a relative fair value of $36,800. Including the value of the warrant, the note had an effective interest rate of 26% per annum.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the results of operations and financial condition of HealthWarehouse.com, Inc. (and including its subsidiaries, the "Company") as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Quarterly Report on Form 10-Q. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "us," "we," "our," and similar terms refer to the Company. This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar exp are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors That May Affect Results and Financial Condition") of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (the "SEC") on July 23, 2013.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

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 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.

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Results of Operations

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

	For the Three Months Ended September 30, 2013	% of Revenue	For the Three Months Ended September 30, 2012	% of Revenue
Net sales	$ 2,399,256	100.0%	$ 2,634,181	100.0%
Cost of sales	1,196,303	49.9%	1,389,328	52.7%
Gross profit	1,202,953	50.1%	1,244,853	47.3%
Selling, general & administrative	2,166,749	90.3%	2,563,726	97.3%
Loss from operations	(963,796)	(40.2%)	(1,318,873)	(50.1%)
Other income	-	0.0%	1,300	0.0%
Interest expense	(57,333)	(2.4%)	(288,631)	(11.0%)
Net loss	$ (1,021,129)	(42.6%)	$ (1,606,204)	(61.0%)

Net Sales

Net sales for the three months ended September 30, 2013 fell to $2,399,256 from $2,634,181 for the three months ended September 30, 2012, a decrease of $234,925, or 8.9%, primarily as a result of a reduction in advertising due to cash constraints.

Costs and Expenses

Cost of Sales and Gross Margin

Cost of sales were $1,196,303 for the three months ended September 30, 2013 as compared to $1,389,328 for the three months ended September 30, 2012, a decrease of $193,025, or 13.9%, primarily as a result of a reduction in order volume. Gross margin percentage increased year-over-year from 47.3% for the three months ended September 30, 2012 to 50.1% for the three months ended September 30, 2013, primarily due to the shift in product mix from over-the-counter drugs to higher margin prescription drugs. We believe that the change in product mix with prescription drugs increasing will continue to improve margins during 2013 and our marketing efforts have focused on this shift.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled $2,166,749 for the three months ended September 30, 2013 compared to $2,563,726 for the three months ended September 30, 2012, a decrease of $396,977, or 15.5%. The three months ended September 30, 2013 expense decreases included (a) a decrease in amortization expense of $292,673 (primarily due to the write-off in full of our intangible assets in 2012); (b) a decrease in stock-based compensation expense of $146,265 (primarily due a reduction in the number of options granted); (c) a reduction in salary expense of $122,016 (primarily due to a reduction in headcount and salaries); and (d) a decrease in advertising and marketing

expense of $99,813 (primarily due to the termination of an advertising campaign). The decreases were partially offset by an increase in legal expense of $388,132 (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. 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.

Interest Expense

Interest expense decreased from $288,631 in the three months ended September 30, 2012 to $57,333 in the three months ended September 30, 2013, a decrease of $231,298, or 80.1%, primarily due to the repayment of mature notes payable and convertible notes payable during the three months ended March 31, 2013.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

		For the Nine Months Ended September 30, 2013	% of Revenue		For the Nine Months Ended September 30, 2012	% of Revenue
Net sales	$	7,483,933	100.0%	$	8,785,114	100.0%
Cost of sales		3,770,579	50.4%		4,609,583	52.5%
Gross profit		3,713,354	49.6%		4,175,531	47.5%
Selling, general & administrative		6,102,298	81.5%		8,072,562	91.9%
Loss from operations		(2,388,944)	(31.9%)		(3,897,031)	(44.4%)
Loss on extinguishment		(2,792,900)	(37.3%)		-	0.0%
Interest income		-	0.0%		5,058	0.1%
Interest expense		(186,638)	(2.5%)		(867,213)	(9.9%)
Net loss	$	(5,368,482)	(71.7%)	$	(4,759,186)	(54.2%)

Net Sales

Net sales for the nine months ended September 30, 2013 fell to $7,483,933 from $8,785,114 for the nine months ended September 30, 2012, a decrease of $1,301,181, or 14.8%, primarily as a result of a reduction in advertising due to cash constraints as well as a shift from over-the-counter inventory toward the higher margin prescription drug inventory which has more loyal customers. As a result, OTC and prescription sales decreased approximately $733,000 and $435,000, respectively.

Costs and Expenses

Cost of Sales and Gross Margin

Cost of sales were $3,770,579 for the nine months ended September 30, 2013 as compared to $4,609,583 for the nine months ended September 30, 2012, a decrease of $839,004, or 18.2%, primarily as a result of a reduction in order volume. Gross margin percentage increased year-over-year from 47.5% for the nine months ended September 30, 2012 to 49.6% for the nine months ended September 30, 2013, primarily due to the shift in product mix from over-the-counter drugs to higher margin prescription drugs. We believe that the change in product mix with prescription drugs increasing will continue to improve margins during 2013 and our marketing efforts have focused on this shift.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled $6,102,298 for the nine months ended September 30, 2013 compared to $8,072,562 for the nine months ended September 30, 2012, a decrease of $1,970,264, or 24.4%. The nine months ended September 30, 2013 expense decreases included (a) a decrease in advertising and marketing expense of $634,747 (primarily due to the termination of an advertising campaign); (b) a decrease in salaries expense of $409,444

(primarily due to a reduction in headcount and salaries); (c) a decrease in amortization expense of $398,324 (primarily due to the write-off in full of our intangible assets in 2012); (d) a decrease in freight expense of $328,348 (primarily due to reduced sales); (e) a decrease in travel expense of $130,007 (primarily due to cost reduction initiatives); and (f) a reduction in software engineering and maintenance expense of $102,163 (primarily due to a reduction in headcount). The decreases were partially offset by (a) an increase in legal expense of $266,559 (primarily due to costs associated with the proxy contest that concluded at our Annual Meeting of Shareholders held on August 15, 2013); and (b) an increase in stock-based compensation expense of $144,712 (primarily due to warrants provided to 2012 private placement investors). We expect that our selling, general and administrative expenses, specifically legal and professional fees, will decrease over time. 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.

Loss on Extinguishment

During the nine months ended September 30, 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.

Interest Expense

Interest expense decreased from $867,213 in the nine months ended September 30, 2012 to $186,638 in the nine months ended September 30, 2013, a decrease of $680,575, or 78.5%, primarily due to the repayment of mature notes payable and convertible notes payable during the three months ended March 31, 2013.

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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:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net loss	$(1,021,129)	$(1,606,204)	$(5,368,482)	$(4,759,186)
Non-GAAP adjustments:				
Loss on extinguishment of debt	-	-	2,792,900	-
Other income	-	(1,300)	-	(5,058)
Interest expense, net	57,333	288,631	186,638	867,213
Depreciation and amortization	36,740	71,070	108,433	250,717
Warrants issued to 2012 investors	-	-	487,200	-
Imputed value of contributed services	87,500	-	262,500	-
Stock-based compensation	122,689	268,955	476,096	818,585
Change in fair value of collateral securing employee advances	31,448	-	(13,268)	-

Adjusted EBITDAS	$(685,419)	$(978,848)	$(1,067,983)	$(2,827,729)

Adjusted EBITDAS for the three and nine months ended September 30, 2013 included significant costs associated with 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 nine months ended September 30, 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 September 30, 2013 we had a working capital deficiency of $5,051,650 and an accumulated deficit of $27,939,398. During the nine months ended September 30, 2013 and year ended December 31, 2012, we incurred net losses of $5,368,482 and $5,574,775 and used cash in operating activities of $887,679 and $947,911, respectively. These conditions raise substantial doubt about our ability to continue as a going concern.

Subsequent to September 30, 2013, we raised an aggregate of $200,000 in debt financings 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 condensed 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 condensed consolidated financial statements do not necessarily represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of September 30, 2013 and 2012, the Company had cash on hand of $53,980 and $3,308, respectively. Our cash flow from operating, investing and financing activities during these periods were as follows:

For the nine months ended September 30, 2013, cash flows included net cash used in operating activities of $881,238. This amount included a decrease in operating cash related to a net loss of $5,368,482, partially offset by aggregate non-cash adjustments of $4,290,762, plus aggregate cash provided by changes in operating assets and liabilities of $196,482 (primarily a result of extending payables in order to preserve cash balances). For the nine months ended September 30, 2012, cash flows included net cash used in operating activities of $831,903. This amount included a decrease in operating cash related to a net loss of $4,759,186 partially offset by aggregate non-cash adjustments of $2,005,118, plus aggregate cash provided by changes in operating assets and liabilities of $1,922,165 (primarily a result of extending payables in order to preserve cash balances).

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For the nine months ended September 30, 2013, net cash provided by investing activities was $781,412 due to releasing $850,002 of cash provided by investors from escrow (restricted cash) partially offset by $68,590 of capitalized web development costs. For the nine months ended September 30, 2012, net cash provided by investing activities was $136,990 related to net proceeds of employee advances.

For the nine months ended September 30, 2013, net cash provided by financing activities was $153,806. 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 nine months ended September 30, 2013) and $549,000 of proceeds from the issuance of notes payable, partially offset by repayments of notes payable of $2,010,905, repayments of convertible notes payable of $1,000,000 and payments on equipment leases of $36,262. For the nine months ended September 30, 2012, net cash provided by financing activities was $698,181. Cash was provided by $605,000 of proceeds from advances from certain stockholders, $475,004 of proceeds from the sale of common stock (which excludes $850,002 received during 2012 but closed on during the nine months ended September 30, 2013) and $26,662 of proceeds from the exercise of common stock options, partially offset by repayments of notes payable and other advances to related parties of $293,812, a cash overdraft of $71,155, and payments on equipment leases of $43,518.

Critical Accounting Policies and Estimates

There are no material changes from the critical accounting policies set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K filed on July 23, 2013. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. 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–Q, our management, including the CEO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Management had previously identified material weaknesses in our internal control over financial reporting as of December 31, 2012 (see Form 10-K filed with the SEC on July 23, 2013), which is an integral component of our disclosure controls and procedures. On May 15, 2013, the Company engaged a financial consulting firm to assist with its financial reporting and to provide the Company with SEC and technical accounting expertise. However, certain material weaknesses were not remediated during the nine months ended September 30, 2013. As a result, our management has concluded that, as of September 30, 2013, our disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting or in other factors during the quarter ended September 30, 2013, that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the Effectiveness of Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations of any control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

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PART II. OTHER INFORMATION

Item 1. 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 and Jason Smith ("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 April 26, 2013, Plaintiffs dismissed Mr. Singer from the lawsuit. Trial of the case is currently scheduled for April of 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. 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 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 no 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. Plaintiff's answering brief is due by December 13, 2013, and defendants' reply brief is due by January 10, 2014.

On May 15, 2013, a former consultant filed suit in Boone County, Kentucky Circuit Court alleging breach of contract and unjust enrichment for unpaid consulting fees and expenses of approximately $27,000. We filed an answer to the complaint on July 22, 2013 and intend to vigorously defend ourselves against the allegations.

On October 11, 2013, two of our former directors sent a letter demanding repayment of legal fees and expenses ($80,766 of previously incurred expenses plus future expenses) pursuant to certain Company indemnification and advancement provisions. On November 13, 2013, following the receipt of the Special Committee report, we agreed to indemnify the two former directors for their reasonable legal fees and expenses up to $85,000 less any amount paid to the directors under our directors' and officers' insurance policy. On November 14, 2013, the former directors filed a verified complaint and a motion for expited proceedings for advancement in the Delaware Court of Chancery. We have not yet filed a response to the complaint.

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Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 1, 2013, the Company issued an aggregate of 130,053 shares of our Common Stock to holders of warrants that elected to exercise warrants to purchase 150,000 shares of common stock on a “cashless” basis under the terms of the warrants. The warrants had an exercise price of $0.25 per share. The sale of the Common Stock was made without registration in reliance on the exemption from registration afforded by §4(2) under the Securities Act of 1933, and corresponding provisions of states securities laws which exempt transactions by an issuer not involving any public offering.

On September 20, 2013, the Company issued an aggregate of 359,274 shares of our Common Stock to holders of warrants that elected to exercise warrants to purchase 450,000 shares of common stock on a “cashless” basis under the terms of the warrants. The warrants had an exercise price of $0.25 per share. The sale of the Common Stock was made without registration in reliance on the exemption from registration afforded by §4(2) under the Securities Act of 1933, and corresponding provisions of states securities laws which exempt transactions by an issuer not involving any public offering.

On September 20, 2013, the Company issued 118,857 shares of our Common Stock to the holder of a warrant which elected to exercise warrants to purchase 156,000 shares of common stock on a “cashless” basis under the terms of the warrants. The warrants had an exercise price of $0.25 per share. The sale of the Common Stock was made without registration in reliance on the exemption from registration afforded by §4(2) under the Securities Act of 1933, and corresponding provisions of states securities laws which exempt transactions by an issuer not involving any public offering.

Recent Repurchases of Common Stock

There were no repurchases of our common stock during the quarter ended September 30, 2013. The Company does not currently have an announced repurchase program.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

The following exhibits are provided:

Exhibit No.	Description
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 Document **
101.LAB	XBRL Label Linkbase Document **
101.PRE	XBRL Presentation Linkbase Document **

* Filed herewith.
** Furnished herewith.

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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: November 26, 2013 HEALTHWAREHOUSE.COM, INC.

By: /s/ Lalit Dhadphale
Lalit Dhadphale
President and Chief Executive Officer
(principal executive officer)