

HealthWarehouse.com, Inc.  
Form 10-Q  
November 15, 2010

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2010

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.)

100 Commerce Boulevard, Cincinnati, Ohio  
(Address of Principal Executive Offices)

45140

(Zip Code)

(513) 618-0911  
(Registrant's Telephone Number, Including Area Code)

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

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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  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. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of November 10, 2010, there were 10,278,934 shares of common stock outstanding.

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HEALTHWAREHOUSE.COM, INC.

QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

The condensed consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2009 included in our annual report on Form 10-K as filed on April 15, 2010 with the Securities and Exchange Commission.

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

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets		
Cash	\$ -	\$ 191,181
Accounts receivable, net of allowance of \$30,000	762,177	277,716
Inventories – finished goods	562,925	388,748
Employee advances	55,871	-
Prepaid expenses and other current assets	151,040	190,999
Total current assets	1,532,013	1,048,644
Property and equipment, net	308,643	318,793
Website development costs, net of accumulated amortization of \$114,425 and \$39,275	85,971	161,121
Total assets	\$ 1,926,627	\$ 1,528,558
Liabilities and Stockholders' Deficiency		
Current liabilities		
Accounts payable – related parties	\$ 698,476	\$ 73,254
Accounts payable – trade	884,640	802,607
Accrued expenses and other current liabilities	189,524	72,766
Convertible notes, net of deferred debt discount of \$13,507 and \$0 at September 30, 2010 and December 31, 2009, respectively	186,493	-
Notes payable, net of deferred debt discount of \$157,713 at December 31, 2009	-	357,287
Notes payable, related party	286,834	-
Total current liabilities	2,245,967	1,305,914
Notes payable, net of deferred debt discount of \$211,640 at September 30, 2010	803,360	-
Convertible notes, net of deferred debt discount of \$0 and \$30,737 at September 30, 2010 and December 31, 2009, respectively	100,000	594,263
Total liabilities	3,149,327	1,900,177
Commitments and contingencies		
Stockholders' deficiency		
Preferred stock – par value \$.001 per share; authorized 1,000,000 shares; 200,000 shares designated Series A; 107,501 and 0 shares issued and outstanding (aggregate liquidation preference \$172,016)	108	108
Common stock – par value \$.001 per share; authorized 50,000,000 shares; 10,162,682 and 9,881,768 shares issued and outstanding	10,163	9,882
Additional paid-in capital	3,808,592	2,735,851
Accumulated deficit	(5,041,563)	(3,117,460)
Total stockholders' deficiency	(1,222,700)	(371,619)

Total liabilities and stockholders' deficiency	\$	1,926,627	\$	1,528,558
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Net sales	\$ 1,215,476	\$ 1,006,610	\$ 4,217,652	\$ 2,672,195
Cost of sales	709,999	658,376	2,600,245	1,847,196
Gross profit	505,477	348,234	1,617,407	824,999
Operating expenses:				
Selling, general and administrative expenses	1,303,744	963,745	3,239,194	2,221,655
Loss from operations	(798,267)	(615,511)	(1,621,787)	(1,396,656)
Gain on litigation settlement	-	-	48,887	-
Interest income/(expense)	(157,602)	(3,603)	(351,203)	(9,799)
Net loss	\$ (955,869)	\$ (619,114)	\$ (1,924,103)	\$ (1,406,455)
Per share data				
Net loss per common share basic and diluted	\$ (0.09)	\$ (0.07)	\$ (0.19)	\$ (0.16)
Weighted average number of common shares outstanding Basic and diluted				
	10,159,727	9,471,849	10,011,745	8,627,679

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

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

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Cash flows from operating activities		
Net loss	\$ (1,924,103)	\$ (1,406,455)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	70,500	37,504
Amortization of web development costs	75,150	-
Non-cash stock-based compensation	343,806	211,797
Amortization of deferred debt discount	267,340	19,424
Provision for doubtful accounts	48,358	
Gain on extinguishment of debt	(48,887)	-
Changes in operating assets and liabilities:		
Accounts receivable	(532,820)	(37,948)
Inventories	(174,177)	(337,316)
Prepaid expenses and other current assets	39,959	(187,399)
Accounts payable – trade	131,118	(286,992)
Accounts payable – related parties	625,222	(384,282)
Accrued expenses and other current liabilities	116,741	16,260
Net cash used in operating activities	(961,793)	(2,355,407)
Cash flow from investing activities		
Cash received in share exchange	-	1,220,520
Acquisition of property and equipment	(60,351)	(150,580)
Employee advance	(55,871)	-
Expenses paid in conjunction with share exchange	-	(225,000)
Website development costs	-	(109,772)
Net cash (used in) provided by investing activities	(116,222)	735,168
Cash flows from financing activities		
Proceeds from notes payable	500,000	-
Proceeds from sale of common stock	-	50,196
Proceeds from option/warrant exercises	-	23,915
Proceeds from sale of convertible notes	100,000	1,200,000
Advances from former director	521,000	-
Repayment of advances from former director	(234,166)	-
Net cash provided by financing activities	886,834	1,274,111
Net decrease in cash	(191,181)	(346,128)
Cash – beginning of period	191,181	357,938
Cash – end of period	\$ -	\$ 11,810



## Non-cash investing and financing activities:

## Net assets received in share exchange

Cash	\$	-	\$	1,220,520
Accounts payable		-		(147,276)
Accrued expenses		-		(168,531)
Net assets	\$	-	\$	904,713
Conversion of debt to common stock	\$	425,000	\$	-
Warrants issued in financing transaction	\$	304,037	\$	-

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization, Basis of Presentation and Reverse Recapitalization

On May 14, 2009, Hwareh.com, Inc. completed a share exchange transaction with Clacendix, Inc. (“Clacendix”), pursuant to the terms of a Securities Exchange Agreement, dated as of May 14, 2009. Under the Securities Exchange Agreement, Clacendix acquired all the outstanding capital stock of Hwareh.com, Inc. As a result of the exchange, the former stockholders of Hwareh.com, Inc. owned 7,759,728 shares or approximately 82.4% of the outstanding shares of common stock of Clacendix. Each share of Hwareh.com which was previously outstanding was exchanged for 7.05 shares of Clacendix. This transaction was accounted for as a reverse recapitalization, whereby Hwareh.com, Inc. is deemed to be the accounting acquirer for accounting purposes. The net assets received in the share exchange transaction were recorded at historical costs. Following the closing of the share exchange transaction with Hwareh.com, Clacendix succeeded to the business of Hwareh.com as its sole line of business. Effective August 5, 2009, Clacendix changed its corporate name to HealthWarehouse.com, Inc. The financial statements set forth in this report for all periods prior to the reverse re-capitalization are the historical financial statements of Healthwarehouse.com Inc. and subsidiaries (“The Company”), and have been retroactively restated to give effect to the share exchange transaction. The operations of Clacendix from the date of the share exchange transaction through December 31, 2009 have been included in operations.

On May 5, 2010, the Company announced that its Board of Directors had approved a 1-for-20 reverse split of its common stock, pursuant to previously obtained stockholder authorization. This reverse stock split became effective, on July 16, 2010, which reduced the number of shares of the Company’s common stock issued and outstanding from 203,253,640 to 10,162,682 and reduced the number of authorized shares of common stock from 750 million to 50 million. All share amounts included in the condensed consolidated financial statements and notes thereto have been retroactively adjusted for the reverse stock split. Impacted amounts include shares of common stock authorized and outstanding, common share issuances, shares of common stock underlying stock options and warrants, common shares reserved and loss per share.

The Company is a U.S. licensed retail mail order pharmacy (“RMP”) 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 products.

The Company is presently licensed as a mail-order pharmacy for sales to 49 states and the District of Columbia, and intends to apply for and obtain licenses to sell prescriptions in all 50 states by the end of December 2010. The Company has begun accepting health insurance as part of its prescription program, contracting with insurance providers based on customer demand and business opportunity.

The condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for certain financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the condensed consolidated balance sheet as of September 30, 2010 and the condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to make the Company’s financial position, results of operations and cash flows at September 30, 2010 and for the nine months ended September 30, 2010 and 2009 not misleading have been made. The results of operations for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of results that would be expected for the full year or any other interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the current report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2010.

## 2. Management's Liquidity Plans

As of September 30, 2010, the Company had limited cash and a working capital deficiency of \$713,954. During the three and nine months ended September 30, 2010, the Company generated revenue of \$1,215,476 and \$4,217,652 and a net loss of \$955,869 and \$1,924,103, respectively. For the nine months ended September 30, 2010, cash flows included net cash used in operating activities of \$961,793, net cash used in investing activities of \$116,222 and net cash provided by financing activities of \$886,834.

Since inception, the Company has financed its operations primarily through product sales to customers, debt and private equity investments by existing stockholders, officers and directors and cash received upon closing of the reverse recapitalization. During the nine months ended September 30, 2010, the Company's cash was reduced by approximately \$191,000.

On November 8, 2010, the Company received net cash proceeds of approximately \$3,100,000 for the sale of 349,392 shares of Series B Preferred Stock and restructured \$1,000,000 in short term debt to long term (see Note 12). Management has also indicated that the Company is taking certain steps to improve its operations and cash flows, including the re-launch of its corporate website, improved inventory management and an increase in the number of suppliers. Considering the new financial resources, current operating projections and additional potential funding sources the Company believes that it should be able to secure sufficient financial resources through the next fiscal year.

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 be able to turn into a profitable position 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 extend payables 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. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 3. Summary of Significant Accounting Policies

#### Principles of Consolidation

The condensed consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., ION Holding NV, and ION Belgium NV. ION Holding NV and ION Belgium NV are wholly-owned inactive subsidiaries of the Company. 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 U.S. generally accepted accounting principles 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 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 depreciation, stock-based compensation, valuation of warrants, debt discounts and deferred tax assets, which have been offset by a valuation allowance because it is more likely than not that the deferred tax assets will not be realized in future periods.

#### Reclassifications

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

#### 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 of 2,460,170 at September 30, 2010 are excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive. These potentially dilutive securities consist of stock options to purchase up to 1,599,300 shares of common stock, warrants to purchase up to 625,000 shares of common stock, convertible promissory notes convertible into 182,118 shares of common stock and convertible preferred stock convertible into 53,752 shares of common stock.

#### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Accounting Standards Codification (“ASC”) 718. Stock-based compensation expense for all stock-based payment awards is based on the estimated grant-date fair value. The Company recognizes these compensation costs over the requisite service period of the award, which is generally the option vesting term. Option valuation models require the input of highly subjective assumptions including the expected life of the option. Because the Company’s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The fair value of stock-based payment awards was estimated using the Black-Scholes option pricing model using a volatility figure derived from an index of comparable entities. Management will review this assumption as the Company’s trading history becomes a better indicator of value. The Company accounts for the expected life of options in accordance with the “simplified” method provisions of SEC Staff Accounting Bulletin (“SAB”) No. 110, which enables the use of the simplified method for “plain vanilla” share options as defined in SAB No. 107.

Stock-based compensation was recorded in the condensed consolidated statements of operations in selling general and administrative line item and totaled \$126,959 and \$86,157 for the three months ended September 30, 2010 and 2009, respectively and \$343,806 and \$211,797 for the nine months ended September 30, 2010 and September 30, 2009, respectively.

The fair value of stock-based payment awards was estimated using the Black-Scholes pricing model with the following assumptions and weighted average fair value ranges as follows:

	For the Three and Nine Months Ended September 30, 2010
Risk-free interest rate	2.39% to 2.71%
Dividend yield	N/A
Expected volatility	57.6%
Expected life in years	6.00
Expected forfeiture rate (through term)	0%

#### 4. Convertible Debt

During the year ended December 31, 2009, the Company received the proceeds of \$1,200,000 relating to certain convertible promissory notes (“Convertible Debentures”). During the three and nine months ended September 30, 2010 the Company amortized \$5,870 and \$17,230, respectively, of amortization of debt discount. For the three and nine months ended September 30, 2009, the Company recorded amortization of \$4,003 and \$19,424, respectively. During the nine months ended September 30, 2010, Convertible Debentures in the amount of \$425,000 were converted to 280,784 shares of common stock.

During the nine months ended September 30, 2010, the Company sold four convertible debentures for \$25,000 each for an aggregate amount of \$100,000. Each convertible debenture carries a term of two years, bears a 10% per annum interest rate payable annually and is convertible into 12,500 shares of the Company’s common stock. The Lender has customary “piggy-back” registration rights with respect to the common stock issued or issuable upon the exercise of the convertible debenture.

#### 5. Debt

On December 15, 2009, we entered into a Loan and Security Agreement (the “Loan Agreement”) with HWH Lending LLC, a Delaware limited liability company (the “Lender”). Under the terms of the Loan Agreement, we borrowed \$515,000 from the Lender on December 15, 2009 (the “First Loan”). On May 3, 2010, the Company exercised its right to borrow an additional \$500,000 (the “Second Loan”) from the Lender upon the Company’s request, after achieving positive cash flow for the month of March. The proceeds of the Loans were used by us for working capital purposes. Each Loan is evidenced by a promissory note (the “Notes”), and will bear interest at the rate of 12% per annum, payable at maturity. The Loans are collateralized by substantially all of the Company’s assets. The maturity date of each Loan is one year from the date of the Loan. The Loans may be prepaid in whole or in part at any time by us without penalty, upon 15 days notice.

In consideration of the each of the two loans, the Company granted the Lender a warrant to purchase 312,500 shares. The Lender was granted warrants to purchase an aggregate of 625,000 shares of common stock at an exercise price of \$1.60 per share. Each warrant may be exercised in whole or in part and from time to time for a term of five years from its grant date. The Lender has customary “piggy-back” registration rights with respect to the common stock issued or issuable upon the exercise of the warrants (the “Warrant Shares”). In addition, the Lender has demand

registration rights with respect to the Warrant Shares, so that upon written request of the Lender, we will be obligated to prepare and file with the U.S. Securities and Exchange Commission a registration statement sufficient to permit the resale of the Warrant Shares. The Lenders' registration rights terminate on the date on which all of the Warrant Shares may be sold under Rule 144 of the Securities Act of 1933 without any limitations. The warrants contain customary anti-dilution and purchase price adjustment provisions. The warrants are transferable in whole or in part, so long as the transfers comply with applicable securities laws. The relative fair value of the warrants was estimated at \$304,037 using the Black Scholes method. During the nine months ended September 30, 2010 and 2009 the Company recognized \$250,110 and \$0, respectively, of amortization of the deferred debt discount on short term debt. For the three months ended September 30, 2010 and 2009, the Company recognized \$117,152 and \$0, respectively, of amortization of the deferred debt discount on short term debt.

## 6. Stockholders' Deficiency

## Stock Option Plans

Details of the options outstanding under all plans are as follows:

	Shares	Weighted Average Exercise Price (\$)	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2010	1,514,300	\$ 1.80		
Granted	232,500	2.80	-	-
Expired	-	-	-	-
Canceled	(147,500)	2.43	-	-
Exercised	-	-	-	-
Options outstanding at September 30, 2010	1,599,300	\$ 1.95	6.92	\$ -
Options exercisable at September 30, 2010	547,867	\$ 1.49	5.57	\$ 337,440

Range of Exercise	Number Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.00 – 2.00	421,800	6.12	\$ 0.80	281,200	\$ 0.80
\$ 2.00 – 5.00	1,177,500	7.20	\$ 2.37	266,667	\$ 2.21
\$ 0.00 – \$ 5.00	1,599,300	6.92	\$ 1.95	547,867	\$ 1.49

On April 6, 2010, the Company granted to a consultant for services, options to purchase an aggregate of 15,000 shares of common stock with an exercise price of \$2.50 per share for a total fair value of approximately \$18,602 under a previously approved option plan.

On April 22, 2010, the Company granted to a consultant for services, options to purchase 12,500 shares of common stock with an exercise price of \$2.40 per share for a total fair value of approximately \$14,882 under a previously approved option plan.

On May 3, 2010, the Company granted to employees and consultants options to purchase an aggregate of 122,500 shares of common stock with an exercise price of \$3.60 per share for a total fair value of approximately \$243,000 under a previously approved option plan.

## Warrants

Details of outstanding warrants are as follows:

Shares	Weighted Average Exercise	Weighted- Average Remaining	Aggregate Intrinsic Value
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		Price (\$)	Contractual Term		
Warrants outstanding at December 31, 2009	312,500	\$ 1.60	4.96		
Granted	312,500	1.60			
Expired	-	-	-	-	-
Exercised	-	-	-	-	-
Warrants outstanding at September 30, 2010	625,000	\$ 1.60	4.40	\$	250,000

On May 3, 2010, as disclosed in Note 5, the Company borrowed an additional \$500,000 under the Loan Agreement and in consideration of this loan the Company granted the Lender an additional warrant to purchase 312,500 shares of the Company's common stock at a purchase price of \$1.60 per share. The warrant may be exercised in whole or in part from time to time for a term of five years from its grant date.

## 7. Commitments

### Operating Leases

The Company occupies approximately 16,000 square feet of office and storage space under a Commercial Sublease Agreement with 100 Commerce Boulevard LLC, a related party (see Note 9). The sublease has a current monthly rental rate of \$9,417(as amended) through March 31, 2011, the expiration date.

During the nine months ended September 30, 2010 and 2009, the Company recorded rent expense of \$71,447 and \$70,434, respectively, and for the three months ended September 30, 2010 and 2009, approximately \$50,447 and \$28,251, respectively.

## 8. Contingent Liabilities

On or about January 15, 2010, the Company's former outside counsel, Duval & Stachenfeld LLP("Duval"), commenced litigation against the Company in federal court in New York, New York asserting that the Company owes Duval \$213,887 in unpaid legal fees. Duval was also seeking to recover interest and its fees in connection with the litigation. On May 25, 2010 the Company and Duval settled all litigation by the payment by the Company to Duval in the amount of \$165,000. The Company, for the period ended December 31, 2009 had previously established a reserve in the amount of \$213,887. Pursuant to the settlement agreement, the Company reflected a benefit equal to \$48,887 during the nine months ended September 30, 2010. All legal fees related to this action were expensed as incurred.

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. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's business financial position or results of operations.

## 9. Related Party Transactions

The Company occupies approximately 16,000 square feet of office and storage space under a Commercial Sublease Agreement with 100 Commerce Boulevard LLC, an entity controlled by Jason Smith. Mr. Smith is also the Manager of Rock Castle Holdings, LLC, a 10% or greater stockholder in the Company. Mr. Smith is the son of the controlling stockholder of Masters Pharmaceutical, Inc., one of the Company's principal suppliers from whom the Company purchased \$761,539 and \$1,124,610 of supplies during the nine months ended September 30, 2010 and 2009, respectively, representing approximately 29.2% and 50.9% of total purchases. For the nine months ended September 30, 2010 and 2009, the Company had sales to Masters Pharmaceuticals of \$448,893 and \$125,985, respectively. As of September 30, 2010 and December 31, 2009, the Company had amounts due to Masters Pharmaceuticals and affiliates in the amount of approximately \$698,000 and \$73,000, respectively.

Ron Ferguson, a former Hwareh.com director, has guaranteed the Company's obligation to two suppliers Prescription Supply Inc. and Harvard Drug Group. Mr. Ferguson is the spouse of Diane Ferguson, a stockholder of the Company. The guarantee, and Mr. Ferguson's maximum exposure under the guarantee, does not have a fixed dollar limit. As of September 30, 2010, there was \$815 due to Prescription Supply Inc. and \$4,297 was due to Harvard Drug Group.

During the nine months ended September 30, 2010, a former director advanced \$521,000 in short term financing to the Company. A payment of \$234,166 was made during the nine months ended September 30, 2010. The amount of \$286,834 was outstanding at September 30, 2010.

## 10. Sales Concentrations

During the nine months ended September 30, 2010 sales to Masters Pharmaceuticals were approximately 10.6 % of net sales. The loss of this customers or a significant decline in sales volumes from this customer could have a material adverse effect on the Company's financial position, results of operations and cash flows.

#### 11. New Accounting Pronouncements

In January 2010, the FASB issued new accounting guidance under ASC Topic 820 on Fair Value Measurements and Disclosures, which requires new disclosures and clarifies some existing disclosure requirements about fair value measurement. Under the new guidance, a reporting entity should (a) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and (b) present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. This guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the guidance effective for interim and annual reporting periods beginning after December 15, 2009 did not have a material impact upon the Company's consolidated financial position or results of operations. The adoption of the guidance effective for fiscal years beginning after December 15, 2010 is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In October 2009, the FASB issued new accounting guidance, under ASC Topic 605, on revenue recognition which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria for Subtopic 605-25, Revenue Recognition-Multiple Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence, (b) third-party evidence, or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangements to all deliverables using the relative selling price method and also requires expanded disclosures. This guidance is effective for all new or materially modified arrangements entered into on or after January 1, 2011 with earlier application permitted as of the beginning of a fiscal year. Full retrospective application of the new guidance is optional. The Company has not completed its assessment of this new guidance on its consolidated financial position or results of operations.

In October 2009, the FASB issued new accounting guidance, under ASC Topic 985 on software, which amends the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance is effective for all new or materially modified arrangements entered into on or after January 1, 2011 with earlier application permitted as of the beginning of a fiscal year. Full retrospective application of this new guidance is optional. This guidance must be adopted in the same period that the company adopts the amended accounting for arrangements with multiple deliverables described in the preceding paragraph. The Company has not completed its assessment of this new guidance on its consolidated financial position or results of operations.

In June 2009, the FASB issued ASC810 (prior authoritative literature, SFAS 167 "Amendments to FASB Interpretation No. 46(R)") ASC810 eliminates Interpretation 46(R)'s exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. ASC810 also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity's status as a variable interest entity, a company's power over a variable interest entity, or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying Interpretation 46(R)'s provisions. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. ASC810 is effective as of January 1, 2010. The adoption of this pronouncement did not have a material impact on the Company's condensed consolidated financial position and results of operations.

The FASB has issued Accounting Standard Update (ASU) 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This determination is based on, among other things, the other entity's purpose and design and the Company's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 was effective at the start of the Company's first fiscal year beginning after November 15, 2009. The adoption of this standard has had no material impact on the Company's consolidated financial position and results of operations.

## 12. Subsequent Events

The Company evaluates events that have occurred after the balance sheet date through the date the financial statements are issued. Based upon the evaluation, the Company did not identify any non-recognized subsequent events that would require adjustment to or disclosure in the consolidated financial statements.

Subsequent to September 30, 2010, the Company sold two convertible debentures for \$25,000 each for an aggregate amount of \$50,000. Each convertible debenture carries a term of two years bearing a 10% per annum interest rate payable annually and is convertible into 12,500 shares of the Company's common stock.

Subsequent to September 30, 2010, the Company granted its investment advisor, as part of the compensation related to securing the \$515,000 loan in December 2009 and \$500,000 loan in May 2010, a warrant to purchase 18,750 shares of the Company's common stock at a purchase price of \$1.60 per share for a total fair value of \$25,245. The warrant may be exercised in whole or in part from time to time for a term of five years from its grant date. The chairman of the Company's audit committee is a senior managing director of this investment advisory firm.

Subsequent to September 30, 2010, five convertible debentures in the amount of \$125,000 have been converted into 62,500 shares of common stock.

Subsequent to September 30, 2010, all outstanding Series A Preferred Stock of 107,501 shares were converted into 53,752 shares of the Company's common stock.

Subsequent to September 30, 2010, the Company granted options to purchase an aggregate of 122,000 shares of common stock with an exercise price of \$2.75 per share for a total fair value of \$166,429 under a previously approved option plan.

Subsequent to September 30, 2010, the Company granted options to purchase an aggregate of 250,000 shares of common stock with an exercise price of \$3.03 per share for a total fair value of \$323,736 under a previously approved option plan.

On November 8, 2010, the Company received net cash proceeds of approximately \$3,100,000 for the sale of 349,392 shares of Series B Preferred Stock. In addition, to the preferred shares, the Company issued five year immediately exercisable warrants to purchase 943,106 shares of the Company's common stock at an exercise price of \$3.00 per share.

In addition, on November 8, 2010, the Company refinanced \$1,000,000 of short term notes bearing a 12% per annum interest rate into two year secured convertible debentures bearing a 7% per annum interest rate compounded annually. The principal and accrued interest owing under these notes may be converted in Series B Preferred Stock shares by dividing the amount owing by \$9.45. In connection with the new notes, the Company issued five year immediately exercisable warrants to purchase 285,638 shares of the Company's common stock at an exercise price of \$3.00 per share. In accordance with ASC 470, the Company reclassified this debt to long term on the balance sheet as of September 30, 2010 due to the event occurring after the financial statement date but before the financial statements were issued.

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

### Overview

On May 14, 2009, we completed a share exchange transaction with Hwareh.com, Inc. pursuant to the terms of a Securities Exchange Agreement, dated as of May 14, 2009. Under the Securities Exchange Agreement, we acquired all the outstanding capital stock of Hwareh.com, Inc. (formerly named HealthWarehouse.com, Inc.). As a result of the exchange, the former stockholders of Hwareh.com, Inc. owned approximately 82.4% of the outstanding shares of our common stock. This transaction was accounted for as a reverse recapitalization, whereby Hwareh.com, Inc. is deemed to be the accounting acquirer for accounting purposes. Following the closing of the share exchange transaction with Hwareh.com, we succeeded to the business of Hwareh.com as our sole line of business. Effective August 5, 2009, we changed our corporate name to HealthWarehouse.com, Inc.

On May 5, 2010, the Company announced that its Board of Directors had approved a 1-for-20 reverse split of its common stock, pursuant to previously obtained stockholder authorization. This reverse stock split became effective, on July 16, 2010, which reduced the number of shares of the Company's common stock issued and outstanding from 203,253,640 to 10,162,682 and reduced the number of authorized shares of common stock from 750 million to 50 million. All share amounts included in the condensed consolidated financial statements and notes thereto have been retroactively adjusted for the reverse stock split. Impacted amounts include shares of common stock authorized and outstanding, common share issuances, shares of common stock underlying stock options and warrants, common shares reserved and loss per share.

We are a licensed U.S. licensed retail mail order pharmacy and healthcare e-commerce company that sells brand name and generic prescription drugs and 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 products. Our web address is <http://www.healthwarehouse.com>. At present, we sell:

- a range of prescription drugs;
- 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 objective is to make the pharmaceutical supply chain more efficient by eliminating costs and passing on the savings to the consumer. We are becoming known by consumers as a convenient, reliable, discount provider of prescription medications and over the counter products. We intend to continue to expand our product line as our business grows. We are presently licensed as a mail-order pharmacy for sales to 49 states and the District of Columbia, and we have applied for the remaining state and hope to obtain such license in the near future.

We have begun accepting health insurance as part of our prescription program, initially contracting with a limited number of insurance providers based on customer demand and business opportunity. Our customers tend to be underinsured or uninsured consumers who rely on our service for their daily medications. In addition, due to the savings we pass on to the consumer, our prices are often below insurance co-pay amounts making insurance unnecessary when purchasing from us. We intend to continue expanding the number of health insurance providers that we accept as customer demand warrants.

To date, we have incurred operational losses for all historic periods. We have financed our activities to date through revenues from our online sales, the proceeds from sales of our equity securities in private placement financings and the proceeds from the issuance of our promissory notes in private financings.



Results of Operations

The three months ended September 30, 2010 compared to the three months ended September 30, 2009.

	The three months ended September 30, 2010	% of Revenue	The three months ended September 30, 2009	% of Revenue
Net sales	\$ 1,215,476	100.0%	\$ 1,006,610	100.0%
Cost of sales	709,999	58.4%	658,376	65.4%
Gross profit	505,477	41.6%	348,234	34.6%
Selling, general & administrative expenses	1,303,744	107.3%	963,745	95.7%
Loss from operations	(798,267)	(65.7) %	(615,511)	(61.1) %
Gain on litigation settlement	-	0%	-	-%
Interest income(expense)	(157,602)	(13.0) %	(3,603)	(0.4)
Net loss	\$ (955,869)	(78.6)%	\$ (619,114)	(61.5) %

Net Sales

	The three months ended September 30, 2010	% Change	The three months ended September 30, 2009
Total net sales	\$ 1,215,476	20.7%	\$ 1,006,610
Total average net sales per order	\$ 62.67	2.8%	\$ 60.94

Revenues for the three months ended September 30, 2010 grew to \$1,215,476 from \$1,006,610 for the three months ended September 30, 2009. Revenues increased for the three months ended September 30, 2010 compared to the prior year as a result of an increase in order volume to consumers. Higher margin prescription revenues increased by 291.8% while lower margin over-the-counter products declined by 26.5% for the three months ended September 30, 2010 compared to the same period in 2009.

Another indicator of business activity was that our website attracted 446,689 visits with 1,480,984 page views during the three months ended September 30, 2010 compared to 310,396 visits and 1,111,595 page views during the three months ended September 30, 2009 this decline was due primarily to reduced advertising expenditures for over-the-counter products.

Costs and Expenses

Cost of Sales and Gross Margin

	The three months ended September 30, 2010	% Change	The three months ended September 30, 2009
Total cost of sales	\$ 709,999	7.8%	\$ 658,376
Total gross profit dollars	\$ 505,477	45.2%	\$ 348,234
Total gross margin percentage	\$ 41.6%		\$ 34.6%

Total cost of sales increased to \$709,999 for the three months ended September 30, 2010 as compared to \$658,376 for the three months ended September 30, 2009. The decrease of the cost of sales as a percentage of revenue from 65.4% to 58.4% was due to the favorable product mix of higher margin prescription revenue as a higher percentage of total revenue compared to higher percentage of lower margin over-the-counter product for the same period in 2009. Gross margin percentage increased year-over-year from 34.6% for the three months ended September 30, 2009 to 41.6% for the three months ended September 30, 2010.

## Selling, General and Administrative Expenses

	The three months ended September 30, 2010	% Change	The three months ended September 30, 2009
Selling, general and administrative expenses	\$ 1,303,744	35.3%	\$ 963,745
Percentage of revenue	107.3%		95.7%

Selling, general and administrative expenses increased by \$339,999 in the three months ended September 30, 2010 compared to the same period in 2009, an increase of 35.3%. The three months ended September 30, 2010 expense increases were due primarily to expenses related to the maturing of business activities including increased headcount and increases of approximately \$456,700 for payroll, legal, bad debt, rent, contract labor, shipping and fulfillment, and travel related expenses offset in part by a reduction in advertising expenses of \$201,298 compared to the three months ended September 30, 2009. In addition, the recognition of \$126,959 for non-cash based stock compensation expense compared to \$86,157 in the three months ended September 30, 2009 and software engineering for approximately \$49,239 and amortization of capitalized software expenses of \$25,050 for the three months ended September 20, 2010 and zero for both in the three months ended September 30, 2009 due to capitalization.

The nine months ended September 30, 2010 compared to the nine months ended September 30, 2009.

	The nine months ended September 30, 2010	% of Revenue	The nine months ended September 30, 2009	% of Revenue
Net sales	\$ 4,217,652	100.0%	\$ 2,672,195	100.0%
Cost of sales	2,600,245	61.7%	1,847,196	69.1%
Gross profit	1,617,407	38.3%	824,999	30.9%
Selling, general & administrative expenses	3,239,194	76.8%	2,221,655	83.1%
Loss from operations	(1,621,787)	(38.5)%	(1,396,656)	(52.2)%
Gain on litigation settlement	48,887	1.2%	-	-
Interest income(expense)	(351,203)	(8.3)%	(9,799)	(0.4)%
Net loss	\$ (1,924,103)	(45.6)%	\$ (1,406,455)	(52.6)%

## Net Sales

	The nine months ended September 30, 2010	% Change	The nine months ended September 30, 2009
Total net sales	\$ 4,217,652	57.8%	\$ 2,672,195
Total average net sales per order	\$ 88.09	50.7%	\$ 58.44

Revenues for the nine months ended September 30, 2010 grew to \$4,217,652 from \$2,672,195 for the nine months ended September 30, 2009. Revenues increased for the nine months ended September 30, 2010 compared to the prior year as a result of an increase in order volume to consumers. Consumer prescription revenues increased while the sale of over-the-counter declined slightly during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, while revenue generated from the sales of certain prescription products to business

manufacturers increased significantly accounting for approximately 28.1% of all revenue for the nine months ended September 30, 2010, compared to less than 10% for the same period last year. Higher margin prescription revenues increased by 25% while lower margin over-the-counter products declined by 25% for the nine months ended September 30, 2010 compared to the same period in 2009.

Another indicator of business activity was that our website attracted 966,462 visits and 3,267,540 page views during the nine months ended September 30, 2010 compared to 857,200 visits and 3,159,000 page views during the nine months ended September 30, 2009 this decline was due primarily to reduced advertising expenditures for over-the-counter products.

Costs and Expenses

Cost of Sales and Gross Margin

	The nine months ended September 30, 2010	% Change	The nine months ended September 30, 2009
Total cost of sales	\$ 2,600,245	40.8%	\$ 1,847,196
Total gross profit dollars	\$ 1,617,407	96.1%	\$ 824,999
Total gross margin percentage	38.3 %		30.9 %

Total cost of sales increased to \$2,600,245 for the nine months ended September 30, 2010 as compared to \$1,847,196 for the nine months ended September 30, 2009 as a result of growth in consumer prescription, order volume and revenue and the significant growth in business to business revenue. Gross margin percentage increased year-over-year from 30.9% for the nine months ended September 30, 2009 to 38.3% for the nine months ended September 30, 2010. The improvement in gross profit margins was due primarily to the shift in product mix from primarily lower margin OTC product sales for the nine months ended September 30, 2009 to an increase in higher margin revenue for prescription drugs and the sale of certain prescription products to manufacturers.

#### Selling, General and Administrative Expenses

	The nine months ended September 30, 2010	% Change	The nine months ended September 30, 2009
Selling, general and administrative expenses	\$ 3,239,194	46.0%	\$ 2,221,655
Percentage of revenue	76.8 %		83.1 %

Selling, general and administrative expenses increased by \$1,017,539 in the nine months ended September 30, 2010 compared to the same period in 2009, an increase of 45.8%. The 2010 expense increases were due primarily to expenses related to the maturing of business activities including increased headcount and increases of approximately \$802,100 for payroll, legal, bad debt, rent, contract labor, shipping and fulfillment, and travel related expenses offset in part by a reduction in advertising expenses of \$223,535 compared to the nine months ended September 30, 2009. In addition the recognition of \$343,806 for non-cash based stock compensation expense compared to \$211,797 in the nine months ended September 30, 2009 and software engineering for approximately \$150,205 and amortization of capitalized software expenses of \$75,150 for the nine months ended September 30, 2010 and zero for both in the nine months ended September 30, 2009 due to capitalization.

#### Off-Balance Sheet Arrangements

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

#### Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the year ended December 31, 2009 and through September 30, 2010. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

#### Liquidity and Capital Resources

As of September 30, 2010, the Company had limited cash and a working capital deficiency of \$713,954. During the three and nine months ended September 30, 2010, the Company generated revenue of \$1,215,476 and \$4,217,652 and net losses of \$955,869 and \$1,924,103, respectively. For the nine months ended September 30, 2010, cash flows included net cash used in operating activities of \$961,793, net cash used by investing activities of \$116,222 and net cash provided by financing activities of \$886,834.

Since inception, the Company has financed its operations primarily through product sales to customers, debt and private equity investments by existing stockholders, officers and directors. During the nine months ended September

30, 2010, the Company's cash and cash equivalents were reduced by \$191,181. Our sources and uses of funds during this period were as follows:

For the nine months ended September 30, 2010, cash flows included net cash used in operating activities of \$961,793. This amount included a increase in operating cash related to a net loss of \$1,924,103 and additions for the following items: (i) amortization of debt discount, \$267,340(ii) depreciation and amortization, \$145,650; (iii) stock-based compensation expense, \$343,806;(iv) accounts payable related parties and trade, net, \$756,340. The decrease in cash used in operating activities in the first nine months of 2010 was primarily offset by the following increases: (i) accounts receivable, \$(532,820) and (ii) inventories, \$(174,177). For the nine months ended September 30, 2009, cash flows included net cash used in operating activities of \$(2,355,407) a decrease in operating cash related to a net loss of approximately \$1,406,000 and additions for the following items: (i) depreciation and amortization, \$37,504; (ii) stock-based compensation expense, \$211,797; The increase in cash used in operating activities in 2009 was primarily offset by the following decreases: (i) accounts payable related parties and trade, net, \$671,274; (ii) accounts receivable, \$37,948; (iii) prepaid expenses and other current assets, \$187,399; and (iv) inventories, \$337,316.

For the nine months ended September 30, 2010, net cash used in investing activities was \$116,222. For the nine months ended September 30, 2009, net cash provided by investing activities was approximately \$735,000 and was attributable to cash received in share exchange of \$1,220,520, offset by expenses paid in conjunction with share exchange of \$225,000; acquisitions of property and equipment of \$150,580 and website development costs of \$109,772.

For the nine months ended September 30, 2010, net cash provided by financing activities was \$886,834, \$521,000 from an advance from a former director and \$500,000 from proceeds of notes payable. For the nine months ended September 30, 2009, net cash provided by financing activities was approximately \$1,274,000, consisting of a sale of convertible notes of \$1,200,000; sale of common stock of \$50,196 and proceeds from option and warrant exercises of \$23,915.

On November 8, 2010, the Company received net cash proceeds of approximately \$3,100,000 for the sale of 349,392 shares of Series B Preferred Stock and restructured \$1,000,000 in short term debt to long term. Management believes that the Company is taking certain steps to improve its operations and cash flows, including the re-launch of its corporate website, improved inventory management and an increase in the number of suppliers. Considering the new financial resources, current operating projections and additional potential funding sources the Company believes that it should be able to secure sufficient financial resources through the next fiscal year.

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 be able to turn into a profitable position 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 extend payables 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. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosures of commitments and contingencies at the date of the financial statements.

On an ongoing basis, we evaluate our estimates and judgments. We base our estimates and judgments on a variety of factors including our historical experience, knowledge of our business and industry, current and expected economic conditions, the composition of our products/services and the regulatory environment. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

We account for stock-based compensation in accordance with the fair value recognition provisions of Accounting Standards Codification (“ASC”) 718 (prior authoritative literature: SFAS No. 123R, “Share-Based Payment”, for all stock-based payment awards is based on the estimated grant-date fair value. We recognize these compensation costs over the requisite service period of the award, which is generally the option vesting term. Option valuation models require the input of highly subjective assumptions including the expected life of the option. Because our employee

stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options. The fair value of stock-based payment awards was estimated using the Black-Scholes option pricing model using a volatility figure derived from an index of comparable entities. Our management will review this assumption as our trading history becomes a better indicator of value. We account for the expected life of options in accordance with the "simplified" method provisions of SEC Staff Accounting Bulletin ("SAB") No. 110, which enables the use of the simplified method for "plain vanilla" share options as defined in SAB No. 107.

#### Recently-issued Accounting Pronouncements

The information contained in Footnote 11 to the Company's condensed consolidated financial statements included in, Item 1 to this quarterly report is incorporated herewith by reference.



### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

### ITEM 4T. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by our Company is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for our Company.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q (the “Evaluation Date”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Specifically, management’s evaluation was based on the following material weaknesses, which existed as of September 30, 2010:

- Financial Reporting Systems : We did not maintain a fully integrated financial consolidation and reporting system throughout the period and as a result, extensive manual analysis, reconciliation and adjustments were required in order to produce financial statements for external reporting purposes.
- Accounting for Complex Transactions: We lack adequately trained accounting personnel with appropriate United States generally accepted accounting principles (US GAAP) expertise for complex transactions.
- Segregation of Duties : We do not currently have a sufficient complement of technical accounting and external reporting personnel commensurate to support standalone external financial reporting under public company or SEC requirements. Specifically, the Company did not effectively segregate certain accounting duties due to the small size of its accounting staff, and maintain a sufficient number of adequately trained personnel necessary to anticipate and identify risks critical to financial reporting and the closing process. In addition, there were inadequate reviews and approvals by the Company's personnel of certain reconciliations and other processes in day-to-day operations due to the lack of a full complement of accounting staff.
- Policies and Procedures : We have not commenced design, implementation and documentation of the policies and procedures used for external financial reporting, accounting and income tax purposes.
- Assessment of Internal Control : We did not perform a complete assessment of internal control over financial reporting as outlined Section 13(a) or 15(d) of the Act.

We believe that our internal control risks are mitigated by the fact that our Chief Executive Officer reviews and approves substantially all of our major transactions. We believe that our weaknesses in internal control over financial reporting and our disclosure controls relate in part to the fact that we are an emerging business with limited personnel. Management and the audit committee of the Board of Directors believe that the company must allocate additional

human and financial resources to address these matters. Throughout the year, the Company has been continuously improving its monitoring of current reporting systems and its personnel and has recently hired a corporate controller to support the Company in its compliance process. The Company intends to continue making necessary changes until its material weaknesses are remediated.

#### Changes in Internal Control Over Financial Reporting

During the three months ended September 30, 2010, there was no change in our internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. 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. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected, at this time.

## 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. 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 financial condition or results of operations. We are not currently involved any pending or threatened material litigation or other material legal proceedings, except the following.

On or about January 15, 2010, the Company's former outside counsel, Duval & Stachenfeld LLP ("Duval"), commenced litigation against the Company in federal court in New York, New York asserting that the Company owes Duval \$213,887 in unpaid legal fees. Duval was also seeking to recover interest and its fees in connection with the litigation. On May 25, 2010 the Company and Duval settled all litigation by the payment by the Company to Duval in the amount of \$165,000. The Company for the period ended December 31, 2009 had previously established a reserve in the amount of \$213,887. Pursuant to the settlement agreement, the Company reflected a benefit equal to \$48,887 during the nine months ended September 30, 2010. All legal fees related to this action were expensed as incurred.

### ITEM 1A. Risk Factors

Not required.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities during the nine months ended September 30, 2010

On July 6, 2010, the holder of a convertible promissory note in the principal amount of \$25,000 converted the note at a conversion price of \$1.51 per share and received a total of 16,520 shares of the Company's common stock. The issuance of the common stock upon conversion of the notes was made without registration in reliance on the exemptions from registration afforded by Section 4(2) and Rule 506 under the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

On July 14, 2010, we issued a convertible promissory note in the principal amount of 25,000 to an accredited investor. The note is convertible at any time into 12,500 shares of our common stock. The issuance of the note was made without registration in reliance on the exemption from registration afforded by Section 4(2) under the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

On July 27, 2010, we issued a convertible promissory note in the principal amount of 25,000 to an accredited investor. The note is convertible at any time into 12,500 shares of our common stock. The issuance of the note was made without registration in reliance on the exemption from registration afforded by Section 4(2) under the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

### ITEM 3. Defaults upon Senior Securities

None.

### ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

On July 16, 2010, the Company filed a Certificate of Amendment to its Certificate of Incorporation with the Secretary of State of the State of Delaware. The Certificate of Amendment effected a reverse split or combination of the Company's \$0.001 par value common stock (the "Common Stock") of one (1) share for every twenty (20) shares outstanding. As a result of the reverse split, every twenty (20) shares of Common Stock outstanding before the reverse split will represent one share of Common Stock after the Reverse Split, with any fractional shares to be rounded up to the next whole share (the "Reverse Split"). The Financial Industry Regulatory Authority confirmed that the reverse split became effective for trading purposes on the OTC Bulletin Board effective at the open of business on July 29, 2010. The Certificate of Amendment also reduced the number of authorized shares of the Company's Common Stock from 750,000,000 to 50,000,000. A more detailed description of the Reverse Split and the reduction in the number of authorized shares of Common Stock is contained in the Company's Definitive Information Statement on Schedule 14C filed with the U.S. Securities and Exchange Commission on June 22, 2010, and the Company's Current report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 21, 2010.

ITEM 6. Exhibits

The following exhibits are filed as part of this quarterly report:

Exhibit Number and Description

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

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SIGNATURES

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

Dated: November 15, 2010

HEALTHWAREHOUSE.COM, INC.

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

By: /s/ Patrick E. Delaney  
Patrick E. Delaney  
Chief Financial Officer and Treasurer  
(principal financial and accounting officer)