HealthWarehouse.com, Inc.
Form 10-Q
December 31, 2012

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 June 30, 2012

¨ 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)

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

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

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 ¨

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 Smaller Reporting Company x
(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 x

There were 11,851,185 shares of Common Stock outstanding as of December 21, 2012.

Table of Contents

HEALTHWAREHOUSE.COM, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		
ITEM 1.	Financial Statements	3
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	20
ITEM 4.	Controls and Procedures	21
PART II. OTHER INFORMATION		
ITEM 1.	Legal Proceedings	24
ITEM 1A.	Risk Factors	24
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	24
ITEM 3.	Defaults upon Senior Securities	24
ITEM 4.	Mine Safety Disclosures	24
ITEM 5.	Other Information	25
ITEM 6.	Exhibits	25
SIGNATURES		26

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

		June 30, 2012 (Unaudited)		December 31, 2011
Assets				
Current Assets				
Cash	$	179	$	40
Accounts receivable, net		175,719		220,626
Inventories - finished goods, net		527,019		553,897
Employee advances		160,466		298,707
Prepaid expenses and other current assets		43,938		54,480
Total current assets		907,321		1,127,750
Property and equipment, net		840,827		943,849
Intangible assets, net of accumulated amortization of $196,445 and $90,794 as of June 30, 2012 and December 31, 2011, respectively		496,890		602,541
Total Assets	$	2,245,038	$	2,674,140
Liabilities and Stockholders' Deficiency				
Current Liabilities				
Accounts payable - trade	$	2,407,713	$	1,547,657
Accounts payable - related parties		10,093		14,209
Cash overdraft		193,254		239,567
Accrued expenses and other current liabilities		621,011		549,011
Current portion of equipment leases payable		45,871		3,346
Convertible notes, net of deferred debt discount of $110,155 and $275,388 as of June 30, 2012 and December 31, 2011, respectively		889,845		724,612
Notes payable, net of deferred debt discount of $310,552 and $--, as of June 30, 2012 and December 31, 2011, respectively		1,689,448		--
Note payable and other advances - from stockholders		775,000		453,812
Total Current Liabilities		6,632,235		3,532,214
Long-Term Liabilities				

Notes payable, net of deferred debt discount of $-- and $576,741 as of June 30, 2012 and December 31, 2011, respectively		--		1,423,259
Long-term portion of equipment leases payable		191,568		9,201
Total Liabilities		6,823,803		4,964,674
Commitments and Contingencies				
Redeemable Preferred Stock - Series C; net of discount $247,774 and $433,606 as of June 30, 2012 and December 31, 2011, respectively; par value $.001 per share; authorized 1,000,000 shares; 10,000 shares designated Series C: 10,000 issued and outstanding as of June 30, 2012 and December 31, 2011(aggregate liquidation preference $1,000,000)	$	752,226	$	566,394
Stockholders' Deficiency				
Preferred Stock - par value $.001 per share; authorized 1,000,000 shares; issued and outstanding as of June 30, 2012 and December 31, 2011, as follows:				
Convertible preferred stock - Series A -200,000 shares designated Series A; no shares issued and outstanding		--		--
Convertible preferred stock - Series B -625,000 shares designated Series B; 394,685 and 368,862 shares issued and outstanding, respectively (aggregate liquidation preference $3,729,773)		395		369
Common stock - par value $.001 per share; authorized 50,000,000 shares; 12,889,489 and 11,283,830 shares issued, respectively and 11,710,277 and 10,104,618 shares outstanding, respectively		12,889		11,284
Additional paid-in capital		16,104,005		15,110,343
Treasury stock, at cost, 1,179,212 shares as of June 30, 2012 and December 31, 2011, respectively		(3,419,715)		(3,419,715)
Accumulated deficit		(18,028,565)		(14,559,209)
Total Stockholders' Deficiency		(5,330,991)		(2,856,928)
Total Liabilities and Stockholders' Deficiency	$	2,245,038	$	2,674,140

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

Table of Contents

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

	For the Three Months Ended June 30		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Net Sales	$ 2,997,326	$ 2,519,721	$ 6,150,933	$ 4,804,273
Cost of Sales	1,515,608	1,404,192	3,220,255	2,702,335
Gross Profit	1,481,718	1,115,529	2,930,678	2,101,938
Operating Expenses:				
Selling, general and administrative expenses	2,824,358	2,116,736	5,508,836	4,070,434
Loss from Operations	(1,342,640)	(1,001,207)	(2,578,158)	(1,968,496)
Other Income (Expense):				
Other income	1,210	1,635	3,758	2,797
Interest expense	(261,240)	(100,522)	(578,582)	(205,674)
Total Other Expense	(260,030)	(98,887)	(574,824)	(202,877)
Net Loss	$ (1,602,670)	$ (1,100,094)	$ (3,152,982)	$ (2,171,373)
Preferred Stock:				
Series B convertible contractual dividends	(65,271)	(61,000)	(130,542)	(122,000)
Series C redeemable deemed dividends	(92,916)	--	(185,832)	--
Loss Attributable to Common Stockholders	$ (1,760,857)	$ (1,161,094)	$ (3,469,356)	$ (2,293,373)
Per Share Data:				
Net loss per common share - basic and diluted	$ (0.15)	$ (0.10)	$ (0.31)	$ (0.21)
Contractual dividends	(0.01)	(0.01)	(0.01)	(0.01)
Deemed dividends	(0.01)	-	(0.02)	-
Net loss attributable to common stockholders per share - basic and diluted	$ (0.17)	$ (0.11)	$ (0.34)	$ (0.22)

Weighted Average Number of Common Shares				
Outstanding - basic and diluted	10,378,713	10,597,125	10,229,003	10,542,390

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

Table of Contents

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

	For the Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities		
Net loss	$(3,152,982)	$(2,171,373)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	10,521	30,000
Depreciation and amortization	179,647	126,127
Stock-based compensation	549,630	425,193
Amortization of deferred debt discount	431,422	169,391
Changes in operating assets and liabilities:		
Accounts receivable	34,386	(139,154)
Inventories - finished goods	26,878	(104,327)
Prepaid expenses and other current assets	10,542	(21,532)
Accounts payable - trade	1,120,686	455,102
Accounts payable - related parties	(4,116)	330,450
Accrued expenses and other current liabilities	211,438	(106,557)
Net Cash Used in Operating Activities	(581,948)	(1,006,680)
Cash Flows from Investing Activities		
Acquisition of Hocks.com assets	--	(200,000)
Employee advances	138,241	(6,142)
Proceeds from the return of property and equipment	--	15,732
Acquisition of property and equipment	--	(88,606)
Net Cash Provided by (Used in) Investing Activities	138,241	(279,016)
Cash Flows from Financing Activities		
Principal payments on equipment leases payable	(32,691)	--
Proceeds from issuance of common stock	175,000	--
Cash overdraft	(46,313)	--
Proceeds from exercise of common stock options	26,662	
Proceeds from notes payable and other advances - from stockholders	605,000	--
Repayment of notes payable and other advances - from stockholders	(283,812)	--
Net Cash Provided by Financing Activities	$443,846	$--

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

Table of Contents

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

	For the Six Months Ended June 30, 2012	2011
Net increase (decrease) in cash	$ 139	$ (1,285,696)
Cash - Beginning of Period	40	1,397,583
Cash - End of Period	$ 179	$ 111,887
Cash paid for:		
Interest	$ 21,491	$ 9,117
Taxes	$ --	$ --
Non-Cash Investing and Financing Activities		
Conversion of convertible notes into common stock	$ --	$ 225,000
Exchange of common stock to acquire assets of Hocks.com	$ --	$ 693,335
Issuance of series B preferred stock for settlement of accrued dividends	$ 244,001	$ 33,992
Cashless exercise of options into common stock	$ 93	$ --
Cashless exercise of warrants into common stock	$ 1,465	$ 14
Accrued dividends	$ 130,542	$ 122,000
Reclassification of accounts payable - trade to equipment leases payable	$ 257,583	$ --
Deemed dividend - redeemable series C preferred stock	$ 185,832	$ --
Purchase Price Allocation:		
Current assets - inventory	$ --	$ 200,000
Customer relationships	$ --	$ 693,335
Net fair value of assets acquired/total purchase price	$ --	$ 893,335

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

Table of Contents

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

1. Organization and Basis of Presentation

HealthWarehouse.com, Inc. (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 condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for certain financial information and the instructions to Form 10-Q and Article 10 of the Regulation S-X. Accordingly, the condensed consolidated balance sheet as of June 30, 2012 and the condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 and the condensed consolidated statements of cash flows for the six months ended June 30, 2012 and 2011, have been prepared by the Company without being audited. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to make the Company’s condensed consolidated financial position, results of operations and cash flows at June 30, 2012 not misleading have been made. The condensed consolidated results of operations for the three and six months ended June 30, 2012 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 condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the current report on Form 10-K filed with the Securities and Exchange Commission on June 22, 2012.

2. Going Concern and Management’s Liquidity Plans

Since inception, the Company has financed its operations primarily through product sales to customers, debt and equity financing agreements, and advances from stock holders. As of June 30, 2012 and December 31, 2011, the Company had negligible cash and working capital deficiency of $5,724,914 and $2,404,464, respectively. For the six months ended June 30, 2012, cash flows included net cash used in operating activities of $581,948, net cash provided by investing activities of $138,241 and net cash provided by financing activities of $443,846. Additionally, all of the Company’s outstanding convertible notes payable mature at the end of December 2012 and outstanding notes payable mature in January 2013. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

During the six months ended June 30, 2012, the Company received advances of $605,000 from certain stockholders and repaid $283,812 of such advances. Such advances are due on demand and are non-interest bearing. In addition, the Company received $175,000 in cash for common stock and $26,662 in cash in connection with the exercise of common stock options, which has been included on the condensed consolidated balance sheet at June 30, 2012.

Subsequent to June 30, 2012, the Company received proceeds from the sale of common stock in the amount of $350,004 and advances from members of management in the amount of approximately $168,000. The Company recognizes it will need to raise additional capital in order to reduce its debt, potentially renegotiate debt terms 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 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.

Table of Contents

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 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.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, and ION Belgium NV, 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 accounting principles generally accepted in the United States of America 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 reserves related to accounts receivable and inventory, the recoverability and useful lives of long-lived assets, the valuation allowance related to deferred tax assets, and the valuation of equity instruments and debt discounts.

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 as their inclusion would be anti-dilutive and consist of the following:

	June 30, 2012	June 30, 2011
Options	2,025,475	2,192,311
Warrants	562,846	1,896,590
Series B Convertible Preferred Stock	1,973,427	1,844,312
Convertible Promissory Notes	529,100	529,100
Totals	5,090,848	6,462,313

Table of Contents

Stock-Based Compensation

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. During the period ended June 30, 2011 and prior periods, the fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data existed to estimate the volatility using the Company's own historical stock prices. Beginning in July 2011, the Company began to use the historical trading prices of its own common stock as a component in the calculation of an estimated volatility figure to determine the fair value of stock-based payment awards using the Black-Scholes model. Management determined this assumption to be a better indicator of value. The Company accounts for the expected life of options in accordance with the "simplified" method which enables the use of the simplified method for "plain vanilla" share options as defined in Staff Accounting Bulletin No. 107.

Stock-based compensation was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $290,221 and $213,479, for the three months ended June 30, 2012 and 2011, respectively and $549,630 and $425,193 for the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, stock compensation of approximately $2,300,000 remains unamortized and is being amortized over the weighted average remaining period of 1.47 years.

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

	For the Three and Six Months Ended June 30, 2012		For the Three and Six Months Ended June 30, 2011	
Risk-free interest rate	1.04	%	2.72	%
Dividend yield	N/A		N/A	
Expected volatility	172.2	%	55.2	%
Expected life in years	6.00		6.00	

4. Stockholders' Deficiency

Common Stock

During the six months ended June 30, 2012, the Company entered into securities purchase agreements with investors for the purchase of an aggregate of $175,000 for 38,891 shares of common stock at $4.50 per share.

Preferred Stock

On January 1, 2012, the Company issued 25,823 shares of Series B convertible preferred stock valued at $244,001 to the Series B convertible preferred stock owners as payment in kind for dividends. In connection with the outstanding preferred stock, during the three and six months ended June 30, 2012, the Company recorded $65,271 and $130,542 as

contractual dividends and $92,916 and $185,832 as deemed dividends, respectively.

Table of Contents

Stock Options

On January 6, 2012, the Company's Chief Financial Officer was issued 92,858 shares of common stock per a cashless exercise of a stock option with an exercise price of $0.80 to purchase 105,450 shares of common stock.

On March 30, 2012, the Company granted four Directors options to purchase an aggregate of 60,000 shares of common stock under a previously approved plan with an exercise price of $6.99, which is the approximate fair market value of a share of common stock on the grant date. The options have an aggregate grant date fair value of $391,028, vest over a three year period and have a term of ten years.

On March 30, 2012, the Company granted employees options to purchase an aggregate of 30,000 shares of common stock under a previously approved plan with an exercise price of $6.99, which is the approximate fair market value of a share of common stock on the grant date. The options have an aggregate grant date fair value of $195,514, vest over a three year period and have a term of ten years.

On May 7, 2012, the Company received $26,662 in proceeds from the exercise of options to purchase 4,166 shares of the common stock at $2.80 per share and 4,166 shares of common stock at $3.60 per share.

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, 2012	2,165,925	$ 2.89	6.25	-
Granted	90,000	$ 6.99	--	-
Expired	--	--	--	-
Canceled	(116,668)	$ 3.97	--	-
Exercised	(113,782)	$ 0.98	--	-
Options outstanding at June 30, 2012	2,025,475	$ 3.12	5.97	$ 6,503,113
Options exercisable at June 30, 2012	866,308	$ 2.28	5.36	$ 3,484,812

Range of Exercise	Number Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.80 – 2.00	253,475	5.05	$ 0.92	244,684	$ 0.93
$2.00 – 6.99	1,772,000	6.13	$ 3.43	621,624	$ 2.81
$0.80 – $6.99	2,025,475	5.97	$ 3.11	866,308	$ 2.28

Table of Contents

Warrants

During the six months ended June 30, 2012, the Company issued an aggregate of 1,465,578 shares of common stock to three holders of warrants who elected to exercise 2,353,744 warrants on a "cashless" basis under the terms of the warrants. The warrants had exercise prices of $1.60 per share (471,628 net shares), $3.00 per share (701,388 net shares) and $2.90 per share (292,562 net shares).

	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Warrants outstanding at January 1, 2012	2,916,590	$ 2.67	4.00	-
Granted	--	--	--	-
Expired	--	--	--	-
Canceled	--	--	--	-
Exercised	(2,353,744)	$ 2.61	--	-
Warrants outstanding at June 30, 2012	562,846	$ 2.94	4.42	$ 1,909,392
Warrants exercisable at June 30, 2012	312,846	$ 2.91	4.43	$ 1.089,392

5. Commitments and Contingent Liabilities

Operating Leases

The Company's leasehold interest in its office and warehouse space was subject to a mechanic's lien in favor of the contractor that assisted with the construction of the facility. The amount the Company owed to the contractor was in dispute. On June 14, 2012, the Company reached a written settlement and agreed to pay the contractor the total amount of $189,000 in three equal installments. As of June 30, 2012, $63,000 is included in accounts payable. Such amount was paid on November 2, 2012. The Company received a general release and release of mechanic's lien from the contractor.

During the three months ended June 30, 2012 and 2011, the Company recorded rent expense of $46,307 and $51,195, respectively, and for the six months ended June 30, 2012 and 2011, $98,764 and $94,440, respectively.

Equipment Leases

At December 31, 2011, the Company had $257,583 included in Accounts Payable - Trade relating to certain equipment acquired. In January 2012, the Company renegotiated the terms of the payable into a lease agreement for the same equipment. The lease term is five years with a principal amount of $257,583 and an effective interest rate of 14.7% per annum.

Future minimum lease payments, by year and in the aggregate, under equipment leases, which includes capital leases, as of June 30, 2012, are as follows:

For year ending December 31,	Amount

2012	$	38,365
2013		76,757
2014		76,727
2015		75,892
2016		48,949
Total		316,690
Less: amount representing interest		79,250
Present value of future minimum lease payments	$	237,440

Table of Contents

As of June 30, 2012, the equipment has a net book value of $291,660. Depreciation of assets held under capital leases in the amount of $5,094 and $10,188 is included in depreciation expense for the three and six months ended June 30, 2012, respectively.

Litigation

On November 29, 2011, NMN Advisors, Inc. ("Plaintiff") filed a complaint against the Company alleging that it breached a consulting agreement. The complaint seeks damages of $70,000 plus pre-judgment interest. On February 6, 2012, the Company filed its answer to the complaint denying that the Company owes any amounts under the contract, and the Company also filed a cross-complaint against the plaintiff asserting a number of causes of action, including breach of contract. Plaintiff filed its answer to the Company cross-complaint on March 5, 2012. Both the Company and the Plaintiff agreed to attempt to resolve the dispute by court mediation and on August 21, 2012, the Company paid $35,000 in full settlement of all outstanding balances.

On February 9, 2012, two of our former shareholders, Rock Castle Holdings, LLC and Jason Smith ("Plaintiffs"), filed suit against us in the Hamilton County, Ohio Court of Common Pleas, alleging that we have breached the terms of certain incentive options we granted to them in connection with our now-terminated oral consulting arrangements with them, 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 (the "Rock Castle Litigation"). Plaintiffs have requested that the court require us to permit the exercise of the 233,332 options, and in the alternative, award damages in the amount of $2,086,000. We believe the Plaintiffs' claims are without merit and that their damages figure is overstated and unsupported by the law applicable to the case. On March 13, 2012, the Company moved to dismiss the Rock Castle Litigation. On June 6, 2012, the Court of Common Pleas informed the parties that our motion to dismiss would be denied in its entirety if the Plaintiffs make certain amendments to the Complaint. Plaintiff made those amendments on June 12, 2012. On July 19, 2012 the Company filed a counterclaim against the Plaintiffs. On July 24, 2012, the Company filed a complaint against Dennis Smith, alleging that Mr. Smith breached a contract with the Company whereby he agreed to provide certain services to the Company in exchange for Company stock. This action was consolidated with the Rock Castle Litigation. On October 9, 2012, Dennis Smith moved to dismiss the claims asserted against him. On December 6, 2012, the Court of Common Pleas denied Dennis Smith's motion to dismiss. Discovery is proceeding as to all claims.

On March 2, 2012, a former contractor of the Company's filed suit against the Company in the Hamilton County, Ohio Court of Common Pleas, alleging that, among other things, the Company failed to pay amounts due on certain credit cards that were issued in plaintiff's name but for which the Company agreed to assume financial responsibility. Although the Company denies any responsibility for the payments owed, the Company resolved this dispute by entering into a settlement agreement with the plaintiff, and the suit was voluntarily dismissed on May 30, 2012. The settlement amount of $31,321 was paid as of June 30, 2012.

On November 5, 2012, HD Smith, Inc., one of the Company's vendors, ("Plaintiff") filed a complaint against the Company alleging that it breached its vendor credit agreement. The Plaintiff is seeking damages of $170,316 plus pre-judgment interest and attorneys' fees. The Company is currently evaluating the claim and the outcome of this matter cannot be predicted at this time. As of June 30, 2012, the Company has approximately $112,000 included in Accounts Payable – Trade representing the amounts due to the Plaintiff for product acquired through that date. No additional provision has been made as of June 30,2012 relating to this matter.

On October 9, 2012, American Express Travel Related Services Company, Inc. brought legal action against the Company in the Boone County, Kentucky Circuit Court. The action seeks to recover the unpaid balance on a credit card account in the amount of $87,028.95, plus interest and costs. The Company has not yet filed an answer in this action, but intends to attempt to resolve this dispute. As of June 30, 2012, this amount is included in Accounts Payable - Trade.

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. Currently, the Company is not involved in any such matters.

Table of Contents

6. Concentrations

During the three months ended June 30, 2012, two vendors represented 26% and 21% of total purchases. During the six months ended June 30, 2012, two vendors represented 33% and 14% of total purchases.

As of June 30, 2012, one vendor represented 16% of total accounts payable.

As of June 30, 2011, three customers represented 59.4%, 25.1%, and 11.8% of total accounts receivable.

7. Related Party Transactions

Between June 2009 and April 2012, an employee who is the son of the managing member of a limited liability company that beneficially owns approximately 12% of the Company's common stock received advances from the Company in various forms. Through June 30, 2012, such advances totaled $388,967 including interest, and as of June 30, 2012, the outstanding balance of these advances was $160,466. The Company also provided fulfillment services at no charge to a business partly owned by a member of his household through September 30, 2012. The Company's Board of Directors determined that not all of these advances were approved in accordance with the Company's policy on related party transactions, documented appropriately or recorded correctly in the Company's accounting system. As a result, the Company was not able to monitor the outstanding amount of these advances on a continuous basis. In April 2012, this employee voluntarily resigned from the Company. Principal repayments towards the outstanding advances aggregating $235,000 have been made through June 30, 2012. The individual agreed to repay the remaining balance by September 30, 2012 with interest based on prime rate on the first business day of the calendar quarter, and provided security for his repayment obligation. The remaining balance has not been paid in full t

On October 31, 2012, the Company entered into a letter agreement (the "Series C Letter") relating to its Series C Preferred Stock with New Atlantic Venture Fund III, L.P., New Atlantic Entrepreneur Fund III, L.P. and NAV Managers Fund, LLC (together, "New Atlantic"). New Atlantic and its affiliates beneficially own 10,000 shares of the Company's Series C Preferred Stock, which is all the outstanding shares of such stock, and approximately 22.45% of the Company's common stock, on a fully diluted basis. Pursuant to the Series C Letter, New Atlantic has agreed to exchange (the "Exchange") all its shares of Series C Preferred Stock for common stock of the Company if (i) the Company receives at least $4 million in proceeds from qualifying private placements of common stock (as defined) on or prior to December 31, 2012 (the "Private Placements") and (ii) all the Company's 7% Senior Secured Convertible Promissory Notes due December 31, 2012 and all the Company's 7% Senior Secured Promissory Notes due January 15, 2013 cease to be outstanding, and have not been replaced with other debt securities, other than debt securities issued to lenders approved by New Atlantic. If the Exchange occurs, for each share of Series C Preferred it exchanges, New Atlantic will receive a number of shares of common stock equal to $100 divided by the weighted average price of the shares of common stock sold in the Private Placements.

During the six months ended June 30, 2012, the Company received and repaid advances of $605,000 and $283,812, respectively, from certain stockholders. Such advances are due on demand and are non-interest bearing.

8. Acquisition of Hocks

On February 14, 2011, Hocks Acquisition Corporation ("Hocks Acquisition"), the Company's wholly-owned subsidiary, entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Hocks Pharmacy Inc., an Ohio corporation ("Hocks Pharmacy") and its stockholders. Under the Asset Purchase Agreement, Hocks Acquisition

purchased all of the inventory and fixed assets (the "Purchased Assets") owned by Hocks Pharmacy and used in the operation of its internet pharmacy business (the "Internet Business). The Internet Business consists primarily of the internet sale of over-the-counter health and medical products and supplies.

Table of Contents

During the three and six months ended June 30, 2011, the Company recognized $70,998 and $1,367,202 of revenue generated by Hocks.com.

The following table presents the unaudited pro-forma combined results of operations of the Company and Hocks.com for the six months ended June 30, 2011 as if Hocks.com had been acquired at the beginning of that period.

	For the six months ended June 30, 2011 (unaudited)		
Revenue	$	5,138,227	
Net loss	$	(2,178,570	
Pro-forma basic and diluted net loss per common share	$	(0.20	)
Weighted average common shares outstanding – basic and diluted		10,583,826	

9. Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date on which the condensed consolidated financial statements were issued.

Subsequent to June 30, 2012, the Company granted employees options to purchase an aggregate of 76,000 shares of common stock with an exercise price of $4.95 for a total value of $359,609. The options vest over a three year period and have a term of ten years.

Subsequent to June 30, 2012, the Company granted its chief financial officer options to purchase 250,000 shares of common stock with an exercise price of $4.95 for a total value of $1,182,925. The options vest over a three year period and have a term of ten years.

Subsequent to June 30, 2012, the Company received an aggregate of $350,004 for the purchase of 77,779 shares of common stock at a per share price of $4.50.

Subsequent to June 30, 2012, the Company granted warrants to a consultant to purchase 30,000 common shares at an exercise price of $4.95.

Subsequent to June 30, 2012, the Company’s former Chief Financial Officer exercised options to purchase 63,129 shares of common stock under the Company’s 2009 Incentive Compensation Plan, at an exercise price of $0.80 per share for 14,676 shares, and $2.50 per share for 48,453 shares.

Subsequent to June 30, 2012, the Company accrued approximately $168,000 in connection with the reimbursement of corporate expenses paid by the Chief Executive Officer and Chief Financial Officer on behalf of the Company.

Table of Contents

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

Overview

We are a licensed U.S. pharmacy and healthcare e-commerce company that sells discounted brand name and generic prescription drugs and over-the-counter (OTC) medical 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 over the counter and prescription medications and 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 all 50 states and the District of Columbia.

Results of Operations

The three months ended June 30, 2012 compared to the three months ended June 30, 2011

	The three months ended June 30, 2012	% of Revenue	The three months ended June 30, 2011	% of Revenue
Revenue	$ 2,997,326	100.0 %	$ 2,519,721	100.0 %
Cost of sales	1,515,608	50.6 %	1,404,192	55.7 %
Gross profit	1,481,718	49.4 %	1,115,529	44.3 %
Selling, general & administrative expenses	2,824,358	94.2 %	2,116,736	84.0 %
Loss from operations	(1,342,640)	(44.8)%	(1,001,207)	(39.7)%
Other income	157	0.0 %	-	- %
Interest income	1,053	0.0 %	1,635	0.1 %
Interest expense	(261,240)	(8.7)%	(100,522)	(4.0)%
Net loss	$ (1,602,670)	(53.5)%	$ (1,100,094)	(43.7)%

Revenue

	The three months ended June 30, 2012	% Change	The three months ended June 30, 2011

Total revenue	$	2,997,326	19.0%	$	2,519,721
Total average net sales per order	$	53.98	0.5%	$	53.69

Table of Contents

Revenues for the three months ended June 30, 2012 grew to $2,997,326 from $2,519,721 for the three months ended June 30, 2011. Revenues increased for the three months ended June 30, 2012 compared to the prior year as a result of an increase in order volume. This increase is due primarily to a sharp increase in prescription products, offsetting a decline in over the counter products and freight revenue. During the three months ended June 30, 2012, prescription and OTC revenue totaled $1,710,607 and $1,200,183, respectively, compared to $1,165,174 and $1,270,189, respectively for the three months ended June 30, 2011. During the three months ended June 30, 2012, revenues from the Hocks acquisition totaled $447,448 compared to the three months ended June 30, 2011 of $730,999.

During the three months ended June 30, 2012, our websites attracted over 856,274 visits with over 3,001,860 pageviews compared to 876,384 visits and 3,252,290 pageviews during the three months ended June 30, 2011. The decrease in activity is due to lower advertising expenses.

Cost of Sales and Gross Margin

	The three months ended June 30, 2012	% Change	The three months ended June 30, 2011
Total cost of sales	$ 1,515,608	7.9%	$ 1,404,192
Total gross profit dollars	$ 1,481,718	32.8%	$ 1,115,529
Total gross margin percentage	49.4%	5.1%	44.3%

Total cost of sales increased to $1,515,608 for the three months ended June 30, 2012 as compared to $1,404,192 for the three months ended June 30, 2011 as a result of growth in order volume and revenue. Gross margin percentage increased year-over-year from 44.3% for the three months ended June 30, 2011 to 49.4% for the three months ended June 30, 2012. The increase in gross profit margins was due primarily to greater increase in prescription drugs sales, which have higher margins, compared to over the counter products, as well as increases in freight revenue.

Selling, General and Administrative Expenses

	The three months ended June 30, 2012	% Change	The three months ended June 30, 2011
Selling, general and administrative expenses	$ 2,824,358	33.4%	$ 2,116,736
Percentage of revenue	94.2%	10.2%	84.0%

Selling, general and administrative expenses increased by $707,622 in the three months ended June 30, 2012 compared to the same period in 2011, an increase of 33.4%. During the three months ended June 30, 2012, expense increases were due primarily to increased legal expenses of $268,978, shipping expenses of $94,075, accounting expenses of $90,762, salary-related expenses of $67,639, and health insurance expenses of $63,995 compared to the three months ended June 30, 2011. In addition, the recognition of the following expenses for the three months ended June 30, 2012 compared to the three months ended June 30, 2011: (a) $290,221 for non-cash stock based compensation expense compared to $213,479, (b) and depreciation and amortization expenses of $67,795 compared to $55,120. We expect that our selling, general and administrative expenses will decrease in future periods as we anticipate our legal and professional fees will go down.

- 16 -

Table of Contents

Other income (expense)

	The three months ended June 30, 2012	% Change	The three months ended June 30, 2011
Other income	$ 1,210	(26.0)%	$ 1,635
Interest expense	$ (261,240)	159.9%	$ (100,522)

Interest expense increased from $100,522 in the three months ended June 30, 2011 to $261,240 in the three months ended June 30, 2012, primarily due to the recognition of the non-cash accretion of debt discount for the three months ended June 30, 2012 of $215,711 compared to $82,616 for the same period in 2011. Contractual loan interest expense increased to $45,529 for the three months ended June 30, 2012 compared to $17,906 in the three months ended June 30, 2011, mainly due to increases in the average outstanding balances of our convertible notes payable and notes payable.

The six months ended June 30, 2012 compared to the six months ended June 30, 2011

	The six months ended June 30, 2012	% of Revenue	The six months ended June 30, 2011	% of Revenue
Revenue	$ 6,150,933	100.0 %	$ 4,804,273	100.0 %
Cost of sales	3,220,255	52.4 %	2,702,335	56.2 %
Gross profit	2,930,678	47.6 %	2,101,938	43.8 %
Selling, general & administrative expenses	5,508,836	89.6 %	4,070,434	84.7 %
Loss from operations	(2,578,158)	(41.9) %	(1,968,496)	(41.0)%
Other income	157	0.0 %	-	- %
Interest income	3,601	0.1 %	2,797	0.1 %
Interest expense	(578,582)	(9.4) %	(205,674)	(4.3)%
Net loss	$ (3,152,982)	(51.3) %	$ (2,171,373)	(45.2)%

Revenue

	The six months ended June 30, 2012	% Change	The six months ended June 30, 2011
Total revenue	$ 6,150,933	28.0%	$ 4,804,273
Total average net sales per order	$ 53.19	(13.5)%	$ 61.50

Revenues for the six months ended June 30, 2012 grew to $6,150,933 from $4,804,273 for the six months ended June 30, 2011. Revenues increased for the six months ended June 30, 2012 compared to the prior year as a result of an increase in order volume. This increase is due primarily to a sharp increase in prescription products and an increase in both over the counter products and freight revenue supported by continued recurring prescription sales. During the six months ended June 30, 2012, prescription and OTC revenue totaled $3,395,943 and $2,527,476, respectively, compared to $2,195,371 and $2,475,951, respectively for the six months ended June 30, 2011.During the six months

ended June 30, 2012, revenues from the Hocks acquisition totaled $1,044,727 compared to the six months ended June 30, 2011 of $1,367,202.

During the six months ended June 30, 2012, our website attracted over 2,139,185 visits with over 7,088,673 pageviews compared to 1,993,092 visits and 7,004,273 pageviews during the six months ended June 30, 2011. The decrease in activity is due to lower advertising expenses.

Table of Contents

Cost of Sales and Gross Margin

	The six months ended June 30, 2012	% Change	The six months ended June 30, 2011
Total cost of sales	$ 3,220,255	19.2%	$ 2,702,335
Total gross profit dollars	$ 2,930,678	39.4%	$ 2,101,938
Total gross margin percentage	47.6%	3.8%	43.8%

Total cost of sales increased to $3,220,255 for the six months ended June 30, 2012 as compared to $2,702,335 for the six months ended June 30, 2011 as a result of growth in order volume and revenue. Gross margin percentage increased year-over-year from 43.8% for the six months ended June 30, 2011 to 47.6% for the six months ended June 30, 2012. The increase in gross profit margins was due primarily to a greater increase in prescription drug sales, which have higher margins, compared to over the counter products as well as increases in freight revenue.

Selling, General and Administrative Expenses

	The six months ended June 30, 2012	% Change	The six months ended June 30, 2011
Selling, general and administrative expenses	$ 5,508,836	35.3%	$ 4,070,434
Percentage of revenue	89.6%	4.9%	84.7%

Selling, general and administrative expenses increased by $1,438,402 in the six months ended June 30, 2012 compared to the same period in 2011, an increase of 35.3%. During the six months ended June 30, 2012, expense increases were due primarily to increases in shipping expenses of $308,877, legal expenses of $267,301, health insurance expenses of $148,823, advertising expenses of $118,724, and accounting expenses of $103,462 compared to the six months ended June 30, 2011. In addition, the recognition of the following expenses for the six months ended June 30, 2012 compared to the six months ended June 30, 2011: (a) $549,630 for non-cash stock based compensation expense compared to $425,192, (b) and depreciation and amortization expenses of $179,646 compared to $126,128. We expect that our selling, general and administrative expenses will decrease in future periods as we anticipate our legal and professional fees will go down.

Other income (expense)

	The six months ended June 30, 2012	% Change	The six months ended June 30, 2011
Other income	$ 3,758	34.7%	$ 2,797
Interest expense	$ (578,582)	181.3%	$ (205,674)

Interest expense increased from $205,674 in the six months ended June 30, 2011 to $578,582 in the six months ended June 30, 2012, primarily due to the recognition of the non-cash accretion of debt discount for the six months ended June 30, 2012 of $431,422 compared to $169,391 for the same period in 2011. Contractual loan interest expense increased to $147,160 for the six months ended June 30, 2012 compared to $36,283 in the six months ended June 30, 2011, mainly due to increases in the average outstanding balances of our convertible notes payable and notes payable.

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 six months ended June 30, 2012 and 2011. 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 June 30, 2012, the Company had negligible cash and a working capital deficit of $5,724,914. During the six months ended June 30, 2012, the Company generated revenue of $6,150,933 and a net loss of $3,152,982. For the six months ended June 30, 2012, cash flows included net cash used in operating activities of $581,948, net cash provided by investing activities of $138,241 and net cash provided by investing activities of $443,846. These conditions raise substantial doubt about the entity's ability to continue as a going concern.

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

Subsequent to June 30, 2012, the Company received proceeds from the sale of common stock in the amount of $350,004 and advances from members of management in the amount of approximately $168,000. 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.

Notwithstanding the foregoing, the accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate 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 financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the six months ended June 30, 2012, cash flows included net cash used in operating activities of $581,948. The primary reason for the use of cash was due to the increase in net loss for the period for the expansion of the Company's operating expenses to support increased revenues offset in part by accounts payable-trade of $1,120,686, stock-based compensation of $549,630, amortization of deferred debt discount of $431,422, and accrued expenses and other current liabilities of $211,438. The increases in Accounts Payable – Trade and accrued expenses and other current liabilities were a result of the Company extending payables in order to preserve cash balances. For the six months

ended June 30, 2011, cash flows included net cash used in operating activities of $1,006,680. The primary reason for the use of cash was due to the increase in net loss for the period for the expansion of the Company’s headcount and operating expenses to support increased revenues which was offset by non-cash items of $750,711 and larger increases in accounts payable compared to increases in current assets.

Table of Contents

For the six months ended June 30, 2012, net cash provided by investing activities was $167,267 related to net employee advances of $138,241. For the six months ended June 30, 2011, net cash used in investing activities was $279,016.

For the six months ended June 30, 2012, net cash provided by financing activities was $443,846, due primarily to advances from certain stockholders of $605,000, of which $283,812 has been repaid to certain stockholders and proceeds from common shares issued of $201,662 offset in part by capital lease payments of $32,691 and a cash overdraft of $46,313. For the six months ended June 30, 2011, no cash was provided by or used in financing activities.

Critical Accounting Policies and Estimates

The preparation of our condensed 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. Our significant estimates include reserves related to accounts receivable and inventory, the recoverability and useful lives of long-lived assets, the valuation allowance related to deferred tax assets, the valuation of equity instruments and debt discounts.

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, whereby all stock-based payment awards are 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. During the period ended June 30, 2011 and prior periods, the fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data existed to estimate the volatility using the Company's own historical stock prices. Beginning July 2011, we began to use the historical trading prices of its own common stock as a component in the calculation of an estimated volatility figure to determine the fair value of stock-based payment awards using the Black-Scholes model. Management determined this assumption to be 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Table of Contents

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 and CFO, 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 and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. As described below, management has identified material weaknesses in our internal control over financial reporting, which is an integral component of our disclosure controls and procedures. As a result of those material weaknesses, our management has concluded that, as of June 30, 2012 our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined In Exchange Act Rule 13a-15(f). The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. In addition, because of changes in conditions, the effectiveness of internal control may vary over time.

Table of Contents

As of December 31, 2011, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and identified the material weaknesses described below. In conducting this evaluation, management took into account the information identified and conclusions reached by the non-management directors in the Review. As of June 30, 2012, management has concluded that the material weaknesses identified continue to exist and the Company's internal control over financial reporting was not effective. A "material weakness" is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statement will not be presented or detected by our employees.

The specific material weaknesses that management identified in our internal controls as of June 30, 2012 are as follows:

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

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

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

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

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

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

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

Plans For Remediation of Material Weaknesses

We are in the process of implementing changes to strengthen our internal controls. We are in the process of developing a remediation plan for the identified material weaknesses and we expect that work on the plan will continue through the remainder of 2012. Specifically, to address the material weaknesses arising from insufficient accounting personnel, the Company removed one member of the accounting staff who was determined not to have

sufficient accounting expertise, and the Company (i) hired a full-time Chief Financial Officer who will be on-site throughout the year and (ii) hired one additional full-time accountant during 2012. As of October 8, 2012, the Company has engaged a second accountant on a part-time basis. To address the material weakness arising from inadequate control over disbursements, the Company has canceled certain credit cards, limited the number of personnel with authority over the Company's bank accounts and is in the process of revising its policies and procedures for review and approval of employee disbursements and expenses. The Company is currently evaluating what additional policies and procedures may be necessary, how to most effectively communicate the policies and procedures to its personnel and how to improve the integration of its financial consolidation and reporting system. Where appropriate, the Company is utilizing assistance from the third-parties as it implements and refines its remediation plan.

Table of Contents

Additional measures may be necessary, and the measures we expect to take to improve our internal controls may not be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that such material weakness or other material weaknesses would not result in a material misstatement of our annual or interim financial statements. In addition, other material weaknesses or significant deficiencies may be identified in the future. If we are unable to correct deficiencies in internal controls in a timely manner, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

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 June 30, 2012, that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting. The Company is a non-accelerated filer and is not subject to Section 404(b) of the Sarbanes Oxley Act. The Company believes that the implementation of plans for remediation of material weaknesses, referenced in the above section, will assist in improving internal controls over financial reporting.

On September 25, 2012, the Company replaced its former CFO with a full-time employee based in Florence, KY. As discussed above, subsequent to June 30, 2012, the Company has also hired temporary personnel to assist further with its financial reporting process.

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 in any pending or threatened material litigation or other material legal proceedings.

ITEM 1A. Risk Factors

Not required.

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

On August 21, 2012, the Company issued 22,222 shares of common stock at a per share price of $4.50 to one accredited investor in a private offering. The sale of the common stock was made without registration in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

On October 18, 2012, the Company issued 11,111 shares of common stock at a per share price of $4.50 to Lynn Peppel, IRA, an affiliate of Cape Bear Partners, LLC, a more than 10% stockholder of the Company, in a private offering. The sale of the common stock was made without registration in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

On November 5, 2012, the Company issued 11,111 shares of common stock at a per share price of $4.50 to one accredited investor in a private offering. The sale of the common stock was made without registration in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

On December 5, 2012, the Company's former Chief Financial Officer, Patrick E. Delaney, exercised options to purchase 63,129 shares of common stock under the Company's 2009 Incentive Compensation Plan, at an exercise price of $0.80 per shares for 14,676 shares, and $2.50 per share for 48,453 shares. The issuance of the common stock upon exercise of the options was made without registration in reliance on the exemption from registration afforded by Section 4(2) of 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. Mine Safety Disclosures

None.

Table of Contents

ITEM 5. Other Information

None.

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.

Table of Contents

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: December 28, 2012

HEALTHWAREHOUSE.COM, INC.

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

By: /s/ Eduardo Altamirano
Eduardo Altamirano
Chief Financial Officer and Treasurer
(principal financial and accounting officer)

Table of Contents

Exhibit Index

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. *

* filed herewith