HealthWarehouse.com, Inc.
Form 10-Q
May 12, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2016

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	22-2413505
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

7107 Industrial Road, Florence, Kentucky	41042
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 Accelerated Filer

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

There were 37,693,404 shares of Common Stock outstanding as of May 10, 2016

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HEALTHWAREHOUSE.COM, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash	$24,866	$11,217
Restricted cash	115,088	145,088
Accounts receivable, net of allowance of $47,143 as of March 31, 2016 and December 31, 2015	64,521	51,627
Inventories - finished goods, net	241,642	182,647
Prepaid expenses and other current assets	85,423	81,718
Total current assets	531,540	472,297
Property and equipment, net of accumulated depreciation of $827,528 and $801,270 as of March 31, 2016 and December 31, 2015	382,990	409,248
Web development costs, net of accumulated amortization of $165,699 and $146,448 as of March 31, 2016 and December 31, 2015	65,311	84,562
Total assets	$979,841	$966,107
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable – trade	$2,310,300	$2,189,649
Accounts payable – related parties	260	862
Accrued expenses and other current liabilities	347,844	597,665
Current portion of equipment lease payable	29,349	46,143
Notes payable and other advances, net of debt discount of $12,056 and $0 as of March 31, 2016 and December 31, 2015, respectively	1,087,944	991,089
Note payable and other advances – related parties	16,058	23,889
Redeemable preferred stock - Series C; par value $0.001 per share; 10,000 designated Series C: 10,000 issued and outstanding as of March 31, 2016 and December 31, 2015 (aggregate liquidation preference of $1,000,000)	1,000,000	1,000,000
Total current liabilities	4,791,755	4,849,297
Total liabilities	4,791,755	4,849,297

Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of March 31, 2016 and December 31, 2015 as follows:		
Convertible preferred stock - Series A – 200,000 shares designated Series A; 44,443 shares available to be issued; no shares issued and outstanding	-	-
Convertible preferred stock - Series B – 625,000 shares designated Series B; 517,359 and 483,512 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively (aggregate liquidation preference of $4,974,601 and $4,889,043 as of March 31, 2016 and December 31, 2015, respectively)	517	484
Common stock – par value $0.001 per share; authorized 100,000,000 shares; 38,844,374 shares issued and 37,665,162 shares outstanding as of March 31, 2016 and December 31, 2015	38,844	38,844
Additional paid-in capital	31,067,056	30,656,598
Treasury stock, at cost, 1,179,212 shares as of March 31, 2016 and December 31, 2015	(3,419,715)	(3,419,715)
Accumulated deficit	(31,498,616)	(31,159,401)
Total stockholders' deficiency	(3,811,914)	(3,883,190)
Total liabilities and stockholders' deficiency	$979,841	$966,107

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

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

	For the Three Months Ended March 31, 2016			2015		
Net sales	$	2,347,798		$	1,612,677	
Cost of sales		891,820			631,163	
Gross profit		1,455,978			981,514	
Operating expenses:						
Selling, general and administrative expenses		1,683,716			1,107,550	
Net loss from operations		(227,738	)		(126,036	)
Other expense:						
Interest expense		(25,919	)		(74,752	)
Total other expense		(25,919	)		(74,752	)
Net loss		(253,657	)		(200,788	)
Preferred stock:						
Series B convertible contractual dividends		(85,558	)		(79,961	)
Net loss attributable to common stockholders	$	(339,215	)	$	(280,749	)
Per share data:						
Net loss – basic and diluted	$	(0.01	)	$	(0.01	)
Series B convertible contractual dividends		(0.00	)		(0.00	)
Net loss attributable to common	$	(0.01	)	$	(0.01	)

stockholders - basic and diluted		
Weighted average number of common shares outstanding - basic and diluted	37,665,162	37,570,383

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

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

	For the Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net loss	$(253,657)	$(200,788)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	-	90
Provision for employee advance reserve	-	2,143
Depreciation and amortization	45,509	45,661
Stock-based compensation	75,138	79,005
Gain on settlement of accounts payable	-	(66,179)
Amortization of debt discount	3,444	54,517
Changes in operating assets and liabilities:		
Accounts receivable	(12,894)	(11,558)
Inventories - finished goods	(58,995)	(1,034)
Prepaid expenses and other current assets	(3,705)	12,857
Accounts payable – trade	120,651	(65,472)
Accounts payable – related parties	(602)	(382)
Accrued expenses and other current liabilities	(15,526)	(57,168)
Net cash used in operating activities	(100,637)	(208,308)
Cash flows from investing activities		
Change in restricted cash	30,000	-
Capital expenditures	-	(5,539)
Website development costs	-	(10,942)
Net cash provided by (used in) investing activities	30,000	(16,481)
Cash flows from financing activities		
Principal payments on equipment leases payable	(16,794)	(15,382)
Proceeds from issuance of notes payable	108,911	-
Repayment of notes payable	(7,831)	-
Net cash provided by (used in) financing activities	84,286	(15,382)
Net increase (decrease) in cash	13,649	(240,171)
Cash - beginning of period	11,217	506,019
Cash - end of period	$24,866	$265,848

Cash paid for:		
Interest	$22,474	$19,544
Non-cash investing and financing activities:		
Issuance of Series B preferred stock for settlement of accrued dividends	$319,853	$298,918
Warrants issued as debt discount in connection with notes payable	$15,500	$41,300
Accrual of contractual dividends on Series B convertible preferred stock	$85,558	$79,961

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

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

1. Organization and Basis of Presentation

HealthWarehouse.com, Inc. ("HEWA" or the "Company"), a Delaware company incorporated in 1998, is an online mail order pharmacy, licensed in 50 states and the District of Columbia to focus on the out-of-pocket prescription drug market. The Company is Verified Internet Pharmacy Practice Site ("VIPPS") accredited by the National Association of Boards of Pharmacy ("NABP"). The Company markets a complete range of generic, brand name, and pet prescription medications as well as over-the-counter ("OTC") medications and products.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of March 31, 2016 and for the three months ended March 31, 2016 and 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the operating results for the full year ending December 31, 2016 or any other period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related disclosures of the Company as of December 31, 2015 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on March 25, 2016.

2. Going Concern and Management's Liquidity Plans

Since inception, the Company has financed its operations primarily through debt and equity financings and advances from related parties. As of March 31, 2016, the Company had a working capital deficiency of $4,260,215 and an accumulated deficit of $31,498,616. During the three months ended March 31, 2016 and the year ended December 31, 2015, the Company incurred net losses of $253,657 and $626,682, respectively and used cash in operating activities of $100,637 and $548,281, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Subsequent to March 31, 2016, the Company continues to incur net losses, use cash in operating activities and experience cash and working capital constraints.

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

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

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

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

Reclassifications

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

Net Earnings (Loss) Per Share of Common Stock

Basic net earnings (loss) per share is computed by dividing net earnings (loss) attributable to Common Stockholders by the weighted average number of common shares outstanding during the period. Diluted net earnings (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 earnings (loss) per share if their inclusion would be anti-dilutive and consist of the following:

	March 31,	
	2016	2015
Options	5,381,205	3,944,557
Warrants	10,121,198	9,839,044
Series B Convertible Preferred Stock	5,892,720	5,507,202
Total potentially dilutive shares	21,395,123	19,290,803

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 31, 2016	December 31, 2015
Deferred Rent	$19,389	$25,852
Advertising	76,639	76,639
Salaries and Benefits	58,937	64,007
Dividend Payable	85,558	319,854
Accrued Interest	44,249	44,249
Accrued Rent	50,078	49,614
Other	12,994	17,450
Total	$347,844	$597,665

5. Notes Payable

The Company is a party to a Loan and Security Agreement (the "Loan Agreement") with a lender (the "Lender"). Under the terms of the Loan Agreement, the Company borrowed an aggregate of $1,000,000 from the Lender (the "Loan"). The Loan is evidenced by a promissory note (the "Senior Note") in the face amount of $1,000,000 (as amended). The Senior Note bears interest on the unpaid principal balance of the Note until the full amount of principal has been paid at a floating rate equal to the Prime Rate plus four and one-quarter percent (4.25%) per annum (7.75% as of March 31, 2016). Under the terms of the Loan Agreement, the Company has agreed to make monthly payments of accrued interest on the first day of every month. The principal amount and all unpaid accrued interest on the Note is payable on May 31, 2016, or earlier in the event of default or a sale or liquidation of the Company. The Loan may be prepaid in whole or in part at any time by the Company without penalty. The Senior Note contains financial covenants which require the Company to meet certain minimum targets for earnings before interest, taxes and non-cash expenses, including depreciation, amortization and stock-based compensation ("EBITDAS"). The Company granted the Lender a first, priority security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Loan, including a Deposit Account Control Agreement, which grants the Lender a security interest in certain bank accounts.

On January 11, 2016, the Company entered into an Amendment to Promissory Note in the face amount of $100,000 with a different lender, effective October 31, 2015, which extended the maturity date of the note payable from November 1, 2015 to October 31, 2016. In consideration of the extension of the maturity date of the note payable, the Company issued to the lender a five-year warrant to purchase 75,000 shares of Common Stock at an exercise price of $0.25 per share. The warrants had a fair value of $15,500 using the Black-Scholes model (see note 6) which was established as debt discount during the three months ended March 31, 2016 and will be amortized using the effective interest method over the remaining term of the Promissory Note. Including the value of the warrants issued in connection with the extension of the maturity date of the Promissory Note, the Promissory Note has an effective interest rate of 23% per annum during the extension period.

The Company recorded amortization of debt discount associated with notes payable of $3,444 and $54,517 for the three months ended March 31, 2016 and 2015, respectively.

6. Stockholders' Deficiency

Preferred Stock

As of March 31, 2016 and December 31, 2015, the Company had accrued contractual dividends of $85,558 and $319,853, respectively, related to the Series B Preferred Stock. On January 1, 2016 and 2015, the Company issued 33,847 and 31,633 shares of Series B convertible preferred stock valued at approximately $320,000 and $299,000, respectively, representing approximately $0.66 in value per share of Series B Preferred Stock outstanding on each date, to the Series B convertible preferred stock holders as payment in kind for dividends.

Stock Options

Valuation

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

	For The Three Months Ended March 31, 2016	2015
Risk free interest rate	1.63% to 2.12%	n/a
Dividend yield	0.00%	n/a
Expected volatility	199% to 200.0%	n/a
Expected life in years	5.5 to 10.0	n/a

Grants

The weighted average fair value of the stock options granted during the three months ended March 31, 2016 was $0.24 per share. There were no stock options granted during the three months ended March 31, 2015.

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During the three months ended March 31, 2016, the Company granted options to consultants and directors of the Company to purchase an aggregate of 172,254 shares of common stock under a previously approved plan at exercise prices ranging between $0.24 and $0.25 per share for an aggregate grant date value of $41,379. The options vested on the grant date and have a term of ten years.

Stock-based compensation expense related to stock options was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $75,138 and $78,789 for the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016, stock-based compensation expense related to stock options of $996,064 remains unamortized, including $104,495 which is being amortized over the weighted average remaining period of 2.0 years. The remaining $891,569 is related to a performance based option where vesting is currently deemed to be improbable and no amount is being amortized.

Summary

A summary of the stock option activity during the three months ended March 31, 2016 is presented below:

	Number of Options	Weighted Average Exercise Price	Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2016	5,341,284	$ 0.70		
Granted	172,254	0.24		
Exercised	-	-		
Forfeited	(132,333)	0.49		
Outstanding, March 31, 2016	5,381,205	$ 0.69	7.6	$ 332,554
Exercisable, March 31, 2016	4,169,539	$ 0.62	7.6	$ 240,254

The following table presents information related to stock options at March 31, 2016:

	Options Outstanding		Options Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Options
$0.09 - $2.20	$0.23	4,701,705	$0.25	8.0	3,740,039
$2.21 - $3.80	3.35	492,500	2.88	3.8	242,500
$3.81 - $6.99	5.17	187,000	5.17	5.4	187,000
	$0.69	5,381,205	$0.62	7.6	4,169,539

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Warrants

Valuation

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

	For The Three Months Ended March 31,	
	2016	2015
Risk free interest rate	1.58%	1.50%
Dividend yield	0.00%	0.00%
Expected volatility	200.0%	196.0%
Contractual term in years	5.00	5.00

Grants

The weighted average fair value of the stock warrants granted during the three months ended March 31, 2016 and 2015, was $0.24 and $0.08 per share, respectively.

Stock-based compensation expense related to warrants for the three months ended March 31, 2016 and 2015 was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $0 and $216, respectively. As of March 31, 2016, stock-based compensation expense related to warrants of $576,840 remains unamortized. The remaining $576,840 is related to a performance based warrant where vesting is currently deemed to be improbable and no amount is being amortized.

A summary of the stock warrant activity during the three months ended March 31, 2016 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2016	10,046,198	$ 0.41		
Granted	75,000	0.25		
Exercised	-	-		
Forfeited	-	-		
Outstanding, March 31, 2016	10,121,198	$ 0.40	3.1	$ 150,922
Exercisable, March 31, 2016	9,871,198	$ 0.34	3.1	$ 150,922

The following table presents information related to stock warrants at March 31, 2016:

	Warrants Outstanding		Warrants Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Remaining Life In Years	Exercisable Number of Warrants
$					