HEALTHWAREHOUSE.COM, INC.

A Delaware Corporation

7107 Industrial Road
Florence, KY 41042
(800)748-7001
www.healthwarehouse.com
support@healthwarehouse.com

SIC Code: 5912 - Drugstores and Proprietary Stores

Quarterly Report

For the quarter ended June 30, 2020

As of June 30, 2020, the number of shares outstanding of our Common Stock was 50,794,028.

As of March 31, 2020, the number of shares outstanding of our Common Stock was 50,688,146.

As of December 31, 2019, the number of shares outstanding of our Common Stock was 50,408,933.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934).
Yes ☐ No ☒

Indicate by check mark if whether the company's shell status has changed since the previous reporting period.
Yes ☐ No ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period.
Yes ☐ No ☒

HEALTHWAREHOUSE.COM, INC.

Quarterly Report

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PART I – ENTITY AND SECURITY INFORMATION

1) Name of the issuer and its predecessors (if any):

HealthWarehouse.com, Inc. (the "Company", "Issuer" or "HEWA"). The Company is an active corporation and in good standing in Delaware.

Formerly Ion Networks, Inc., formed on August 5, 1998 as a Delaware company.
Name changed to Clacendix, Inc. on January 3, 2008.
Name changed to HealthWarehouse.com, Inc. on July 31, 2009.

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years? Yes: ☐ No: ☒

2) Security Information

Security information as of June 30, 2020:

Title and Class of Security	Par Value	Trading Symbol	CUSIP	Total Shares Authorized	Total Shares Outstanding	Public Float	Shareholders of Record
Common Stock	$0.001	HEWA	42227G202	100,000,000	50,794,028	12,339,770	252
Preferred Stock – Series B	$0.001	Not Applicable	Not Applicable	790,000	517,359	-0-	2
Preferred Stock – Series C	$0.001	Not Applicable	Not Applicable	10,000	10,000	-0-	3

On April 14, 2017, HEWA filed a Form 15 with the Securities and Exchange Commission terminating the registration of its Common Stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. As of this date, the Company has no plans to reregister the common stock under the Securities Exchange Act of 1934.

Transfer Agent:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8200

Is the Transfer Agent registered under the Exchange Act? Yes: X No:

Describe any trading suspension orders issued by the SEC in the past 12 months: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: None.

3) Issuance History

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

Number of Shares outstanding as of January 1, 2018	Opening Balance	
	Common	47,670,997
	Preferred Series B	517,359
	Preferred Series C	10,000

Date	Transaction Type	Number of Shares Issued	Class of Securities	Value of shares issued ($ per share) at issuance	Issued at discount to market at time of issuance?	Individual/Entity Shares were issued to	Reason for share issuance or Nature of Services Provided	Restricted or Unrestricted as of this filing?	Exemption or Registration Type
1/10/18	New	123,256	Common	$0.43	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
2/1/18	New	537,500	Common	$0.25	Yes	Eugene McKenna, Greg Matzel, James Wicklund, Michael McKenna, PJ Burbach, Will Gilbert, Hein Tran	Cashless exercise of stock warrants	Restricted	Non Public
2/26/18	New	274,219	Common	$0.25	Yes	Scott Greiper	Cashless exercise of stock warrants	Restricted	Non Public
3/14/18	New	50,000	Common	$0.60	No	Joseph Peters	Stock Based Compensation	Restricted	Rule 701
4/18/18	New	86,884	Common	$0.61	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
7/10/18	New	96,364	Common	$0.55	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
8/21/18	New	10,000	Common	$0.09	Yes	Melissa Greenlee	Exercise of stock option	Restricted	Non Public
10/17/18	New	169,328	Common	$0.31	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
1/8/19	New	213,708	Common	$0.25	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
2/11/19	New	486,381	Common	$0.26	No	Executives (Peters, Seliga)	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	155,424	Common	$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	174,344	Common	$0.30	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
7/31/19	New	33,060	Common	$0.30	No	Pickwick Capital Partners LLC (Doug Greenwood, President, has voting / investment control)	Stock Based Compensation	Restricted	Rule 701
10/15/19	New	227,468	Common	$0.23	No	Directors (Scott, Heimbrock, Weiss, Britts)	Stock Based Compensation	Restricted	Rule 701
12/5/19	New	100,000	Common	$0.09 - $0.11	Yes	Rob Godwin	Exercise of stock option	Restricted	Non Public
1/8/20	New	279,213	Common	$0.17	No	Directors (Scott, Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	105,882	Common	$0.17	No	Directors (Heimbrock, Reilly, Britts)	Stock Based Compensation	Restricted	Rule 701

Number of Shares outstanding as of June 30, 2020	Ending Balance	
	Common	50,794,028
	Preferred Series B	517,359
	Preferred Series C	10,000

All shares issued in the transactions detailed above, contain a legend that states that the shares were issued in a transaction not registered under the Securities Act of 1933 and may not be transferred unless registered or pursuant to an exemption therefrom.

Please see Footnote 9 - Subsequent Events to the Company's condensed consolidated financial statements below for information related to the Company's issuance of common stock related to stock-based compensation for directors.

B. Debt Securities, Including Promissory and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of Note Issuance	Outstanding Balance ($) as of 6/30/2020	Principal Amount at Issuance ($)	Interest Accrued ($) as of 6/30/2020	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
2/10/20	$ 1,675,000	$ 1,675,000	$ 25,125	4/30/2022	Convertible to shares of common stock at $0.12 per share	Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA; Clocktower Holdings LLC, Stacey Stanley, Manager; QCT Holdings LLC, Aaron Haid, President; Kirt & Patricia Bjork; Patrick Mendenhall; Hudson Quinn Holdings LLC, Dr. David Cunningham, Member	Repay existing indebtedness; Conversion of Millenium Note; and General working capital purposes.
4/14/20	$ 525,000	$ 525,000	$ 6,738	4/30/2022	Convertible to shares of common stock at $0.14 per share	Robert B. Ford; Thomas J. Daley 2019 Trust, Thomas J. Daley, Trustee; John Pauly; Marian Pauly; Dwayne Stephens	Repay existing indebtedness and General working capital purposes.
5/1/20	$ 890,000	$ 890,000	$ 1,483	5/1/2022	n/a	First Financial Bank	Fund payroll and other qualifying expenses.

Please see Footnote 6 – Notes Payable to the Company’s condensed consolidated financial statements for more information.

4) Financial Statements

a) The following financial statements were prepared in accordance with U.S. GAAP.

b) The financial statements for this reporting period were prepared by Daniel Seliga, Chief Financial Officer of the Company.

See PART II –UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS below.

5) Issuer’s Business, Products and Service

A) Description of the Issuer’s business operations:

HealthWarehouse.com, Inc. is an online pharmacy, licensed and/or authorized to sell and deliver prescriptions in 50 United States and the District of Columbia focusing on the out-of-pocket prescription drug market, a market which is expected to continue to grow. The Company sells directly to individual consumers who purchase prescription medications and OTC products over the Internet. HealthWarehouse.com is currently 1 of 74 National Association of Boards of Pharmacy (“NABP”) accredited digital pharmacies. In addition, the Company also provides fulfillment services of prescription medication to customers of other healthcare providers including telemedicine and online services companies.

B) The wholly-owned subsidiaries of HealthWarehouse.com, Inc. are Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV. Hocks.com, Inc., ION Holding NV and ION Belgium NV are inactive subsidiaries.

C) Principal products and services: The Company sells directly to individual consumers who purchase prescription medications and OTC products over the Internet. The Company offers over 6,200 prescription medications and over 6,000 OTC products. The Company also provides fulfillment services of prescription medication to customers of other healthcare providers.

6) Issuer's Facilities

HealthWarehouse.com, Inc.'s corporate headquarters is located at 7107 Industrial Road, Florence, Kentucky, 41042 which also houses its inventory and pharmacy and customer service operations. The Company occupies 28,494 square feet of office, storage, and warehouse space under a lease with a monthly rental and the lease expires December 31, 2024. The monthly lease rate ranges between $7,955 and $9,498 during the term of the lease. See Footnote 8 – Commitments and Contingencies to the Company's condensed consolidated financial statements for more details.

7) Officers, Directors, and Control Persons

Names of Officers and Directors

The following table sets forth certain information with respect to the directors and executive officers of the Company as of June 30, 2020. Please see detailed director biographies contained in the Company's 2019 Annual Meeting and Proxy Statement dated August 16, 2019 filed with the OTC Markets on February 24, 2020.

Name		Title
Joseph B. Peters		President and Chief Executive Officer, and Director
Daniel J. Seliga		Chief Financial Officer
Tim Reilly		Director, Chairman
Joseph Heimbrock		Director
Jack Britts		Director

Control Persons

The following individuals and entities are the beneficial owners of more than five percent (5%) of HEWA's Common Stock as of June 30, 2020. If any of the beneficial shareholders are corporate shareholders, the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders are provided.

Name	Affiliation	Address	Number of shares owned	Share Class	Ownership Percentage of Class Outstanding	Beneficial Ownership
Dellave Holdings, LLC, Melrose Capital Advisors LLC, Millenium Trust Company LLC Custodian FBO Timothy E. Reilly and Tim Reilly	Director and >5%	1085 Gulf of Mexico Drive, Longboat Key, FL 34228	4,340,503	Common	8.5%	21.5%
MVI Partners and Joe Heimbrock, Director	Director and >5%	3299 Hughes Court, Taylor Mill, KY 41015	494,913; 1,679,587	Series B Common	96%; 3.3%	15.9% *
Cormag Holdings, LTD and Mark D. Scott	>5%	104 Falcon Ridge Drive, Winnipeg, Manitoba, Canada R3Y1X6	5,699,929	Common	11.2%	11.2%
Dr. Bruce Bedrick	>5%	5375 Monterey Circle #32, Delray Beach, FL 33484	3,990,000	Common	7.9%	7.9%
Lalit Dhadphale	>5%	182 Uccello Drive, Las Vegas, NV 89138	3,022,479	Common	6.0%	6.0%
Jack Britts	Director	2021 Saint Andrews Road, Greensboro, NC 27408	423,137	Common	0.8%	1.0%
Joseph B. Peters	President and Chief Executive Officer, and Director	10611 Aspen Place, Union, KY 41091	283,463	Common	0.6%	1.7%
Daniel J. Seliga	Chief Financial Officer and Principal Financial Officer	3524 Paxton Avenue, Cincinnati, OH 45208	1,041,354	Common	2.1%	2.4%

* Each Preferred B share is convertible into 14.2 common shares as of June 30, 2020.

8) **Legal/Disciplinary History**

A. Please identify whether any of the persons listed above have, in the past ten years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   Dr. Bruce Bedrick, a beneficial owner of 5% or more of the common stock, was subject to a Final Judgment with the United States District Court, Central District of California, related to a

Complaint filed by the Securities and Exchange Commission on March 9, 2017. The Final Judgement was filed by the Securities and Exchange Commission on December 22, 2017.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject.

On April 9, 2018, the Company and its President and Chief Executive Officer were named in a legal complaint filed in the United States District Court by a former employee alleging, among other items, violation of the Fair Labor Standards Act, breach of contract and unjust enrichment related to nonpayment of commissions and overtime compensation and requesting a judgment in excess of $500,000. The suit is in the early stages and, as such, any potential liability cannot be determined at this time. The Company's most recent answer to the complaint asserted numerous counterclaims against the former employee for damages and injunctive relief. Management believes that the Plaintiff's claims are groundless and the Company intends to contest this matter vigorously.

9) Third Party Providers

Legal Counsel

General Counsel

Name:	Mark Kobasuk
Address 1:	7393 Pinehurst Drive
Address 2:	Cincinnati, OH 45244
Phone:	(513) 607-9078
Email:	mgklaw1@gmail.com

Securities Counsel

Name:	Kenneth Tabach
Firm:	Silver, Freedman, Taff & Tiernan LLP
Address 1:	3299 K Street, N.W. Suite 100
Address 2:	Washington, DC 20007
Phone:	(202) 295-4500
Email:	ktabach@sfttlaw.com

and

Name:	Mark J. Zummo
Firm:	Kohnen & Patton, LLP
Address 1:	201 East Fifth Street, Suite 800
Address 2:	Cincinnati, OH 45202
Phone:	(513) 381-0656
Email:	mzummo@kplaw.com

Accounting/Auditing Firm

Firm:	Marcum LLP
Address 1:	750 Third Avenue, 11^{th} Floor
Address 2:	New York, NY 10017
Phone:	(212) 485-5500

10) Issuer Certification

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Peters, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 12, 2020 /s/ Joseph B. Peters

Joseph B. Peters
Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Daniel Seliga, certify that:

1. I have reviewed this quarterly disclosure statement of HealthWarehouse.com, Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 12, 2020 /s/ Daniel J. Seliga

Daniel J. Seliga
Chief Financial Officer

PART II –UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2020 (unaudited)	December 31, 2019
Assets		
Current assets:		
Cash	$ 1,497,390	$ 2,355
Restricted cash	49,786	1,066,335
Accounts receivable	161,902	118,613
Inventories	299,117	247,768
Prepaid expenses and other current assets	60,356	65,882
Total current assets	2,068,551	1,500,953
Property and equipment, net	949,416	1,006,299
Total assets	$ 3,017,967	$ 2,507,252
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 695,629	$ 808,125
Accrued expenses and other current liabilities	1,947,977	1,808,944
Current portion of equipment lease payable	3,231	5,736
Notes payable	-	2,489,678
Note payable - PPP	341,803	-
Redeemable preferred stock - Series C; par value $0.001 per share; 10,000 designated Series C: 10,000 issued and outstanding as of June 30, 2020 and December 31, 2019 (aggregate liquidation preference of $1,000,000)	1,000,000	1,000,000
Total current liabilities	3,988,640	6,112,483
Long term liabilities:		
Capital lease payable - non-current	-	609
Note payable - PPP	548,197	-
Convertible notes payable, net of debt discount of $80,620 as of June 30, 2020	2,119,380	-
Total long term liabilities	2,667,577	609
Total liabilities	6,656,217	6,113,092
Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of June 30, 2020 and December 31, 2019 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of June 30, 2020 and December 31, 2019 (aggregate liquidation preference of $6,429,091 and $6,257,975 as of June 30, 2020 and December 31, 2019, respectively)	517	517
Common stock – par value $0.001 per share; authorized 100,000,000 shares; 51,973,240 and 51,588,145 shares issued and 50,794,028 and 50,408,933 shares outstanding as of June 30, 2020 and December 31, 2019, respectively	51,972	51,587
Additional paid-in capital	34,543,034	34,242,985
Treasury stock, at cost, 1,179,212 shares as of June 30, 2020 and December 31, 2019	(3,419,715)	(3,419,715)
Accumulated deficit	(34,814,058)	(34,481,214)
Total stockholders' deficiency	(3,638,250)	(3,605,840)
Total liabilities and stockholders' deficiency	$ 3,017,967	$ 2,507,252

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

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,	
	2020	2019	2020	2019
Net sales	$ 4,557,443	$ 3,960,265	$ 9,084,782	$ 7,849,688
Cost of sales	1,561,502	1,363,169	3,212,015	2,657,675
Gross profit	2,995,941	2,597,096	5,872,767	5,192,013
Operating expenses:				
Selling, general and administrative expenses	3,030,725	2,596,137	5,920,024	5,135,485
Income (loss) from operations	(34,784)	959	(47,257)	56,528
Other expense:				
Interest expense	(58,516)	(61,646)	(114,471)	(134,900)
Net loss	(93,300)	(60,687)	(161,728)	(78,372)
Preferred stock:				
Series B convertible preferred stock contractual dividends	(85,558)	(85,559)	(171,116)	(171,117)
Net loss attributable to common stockholders	$ (178,858)	$ (146,246)	$ (332,844)	$ (249,489)
Per share data:				
Net loss – basic & diluted	$ (0.00)	(0.00)	$ (0.00)	(0.00)
Series B convertible preferred stock contractual dividends	(0.00)	(0.00)	(0.00)	(0.00)
Net loss attributable to common stockholders - basic & diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding - basic & diluted	50,768,430	49,870,645	50,716,015	49,672,753

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

	Series B Convertible Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-In Capital	Shares	Amount	Deficit	Deficiency
Balances, January 1, 2019	517,359	$ 517	50,197,760	$ 50,197	$ 33,682,223	1,179,212	$ (3,419,715)	$ (34,039,581)	$ (3,726,359)
Stock-based compensation	-	-	155,424	156	168,310	-	-	-	168,466
Common Shares issued for previously accrued compensation	-	-	700,089	700	177,300	-	-	-	178,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	(171,117)	(171,117)
Net loss	-	-	-	-	-	-	-	(78,372)	(78,372)
Balances, June 30, 2019	517,359	$ 517	51,053,273	$ 51,053	$ 34,027,833	1,179,212	$ (3,419,715)	$ (34,289,070)	$ (3,629,382)
Balances, January 1, 2020	517,359	$ 517	51,588,145	$ 51,587	$ 34,242,985	1,179,212	$ (3,419,715)	$ (34,481,214)	$ (3,605,840)
Stock-based compensation	-	-	105,882	106	194,236	-	-	-	194,342
Common Shares issued for previously accrued compensation	-	-	279,213	279	48,304	-	-	-	48,583
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	(171,116)	(171,116)
Warrants issued as debt discount in connection with convertible notes payable	-	-	-	-	57,509	-	-	-	57,509
Net loss	-	-	-	-	-	-	-	(161,728)	(161,728)
Balances, June 30, 2020	517,359	$ 517	51,973,240	$ 51,972	$ 34,543,034	1,179,212	$ (3,419,715)	$ (34,814,058)	$ (3,638,250)

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

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

	For the Six Months Ended June 30	
	2020	**2019**
Cash flows from operating activities		
Net loss	$ (161,728)	$ (78,372)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	66,963	85,537
Stock-based compensation	242,342	221,466
Amortization of debt discount	14,920	12,262
Changes in operating assets and liabilities:		
Accounts receivable	(43,289)	23,330
Inventories	(51,349)	(16,584)
Prepaid expenses and other current assets	5,526	(1,241)
Accounts payable	(112,496)	(108,839)
Accrued expenses and other current liabilities	(31,500)	48,264
Net cash provided by (used in) operating activities	(70,611)	185,823
Cash flows from investing activities		
Capital expenditures	(10,080)	(1,159)
Net cash used in investing activities	(10,080)	(1,159)
Cash flows from financing activities		
Repayment of capital lease	(3,114)	(2,947)
Repayment of notes payable	(2,489,678)	-
Proceeds from note payable - refundable	890,000	-
Proceeds from convertible note	2,161,969	-
Net cash provided by (used in) financing activities	559,177	(2,947)
Net increase in cash	478,486	181,717
Cash and restricted cash - beginning of period	1,068,690	428,447
Cash and restricted cash - end of period	$ 1,547,176	$ 610,164
Cash paid for:		
Interest	$ 86,162	$ 123,065
Non-cash investing and financing activities:		
Warrants issued in connection with convertible notes payable	$ 57,509	$ -
Accrual of contractual dividends on Series B convertible preferred stock	$ 171,116	$ 171,117
Common stock issued to satisfy accrued directors' fees	$ 66,583	$ 106,000
Options issued to satisfy accrued directors' fees	$ 30,000	$ -
Common stock issued to satisfy non-cash executive bonus	$ -	$ 125,000

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
Notes to Unaudited 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 and/or authorized to sell and deliver prescriptions in all 50 United States and the District of Columbia focusing on the out-of-pocket prescription drug market. The Company is a 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.

2. Going Concern and Management’s Liquidity Plans

The Company has financed its operations primarily through debt and equity financings. Additional borrowings from the convertible note financing and the notes payable issued under the Paycheck Protection Program offered by the U.S. Small Business Administration in 2020 have not been sufficient to satisfy the Company’s current obligations. As of June 30, 2020, the Company had a working capital deficiency of $1,920,089 and a stockholder deficiency of $3,638,250. The Company has historically incurred significant net losses, including net losses of $161,728 and $99,400 for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively. Although the Company generated cash from operating activities of $601,550 for the year ended December 31, 2019, the Company used $70,611 of cash in operating activities during the first six months of 2020. These conditions indicate that there is substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued.

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 meet its payment obligations. There is no assurance that additional financing will be available when needed, that management will be able to obtain financing on terms acceptable to the Company or that the Company will become profitable and generate positive operating cash flow in an amount sufficient to meet its obligations. If the Company is unable to raise or generate sufficient additional funds, it will have to develop and implement a plan to attempt to extend note repayments, attempt to negotiate the preferred stock redemption 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 operations, and /or seek reorganization under the U.S. bankruptcy code.

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

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc., Hocks.com, Inc., ION Holding NV, ION Belgium NV, its wholly-owned subsidiaries. ION Holding NV and ION Belgium NV are inactive subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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 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, the net realizable value of inventory, the recoverability and useful lives of long-lived assets and website development costs, the valuation allowance related to deferred tax assets, the valuation of equity instruments, debt discounts and contingencies.

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.

Property and Equipment, net

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance, which do not extend the economic useful life of the related assets, are expensed in the period incurred. Gains or losses on disposal of property and equipment are reflected in the statements of operations in the period of disposal.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This update and related amendments are effective for nonpublic entities for annual periods beginning after December 15, 2020. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In April 2019, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 will replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In connection with recognizing credit losses on receivables and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model. This standard is effective for annual periods beginning after December 15, 2022, with early adoption permitted. The adoption of this standard will be through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

There were no other recent accounting standard updates that the Company has not yet adopted that would have a material impact on our consolidated financial statements.

Debt Discounts

The Company records, as a discount to notes and convertible notes, the relative fair value of warrants issued in connection with the issuances and the intrinsic value of any conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized to interest expense using the interest method over the earlier of the term of the related debt or their earliest date of redemption.

Revenue Recognition

Revenues for the sales of products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is reasonably assured. The Company defers revenue when cash has been received from the customer, but delivery has not yet occurred. Such amounts are reflected as deferred revenues in the accompanying consolidated financial statements.

Revenue is generated through the sale of over-the-counter medication and prescription medication. The Company also generates revenue by providing fulfillment services of prescription medication to customers of other healthcare providers. These revenue streams culminate in a single performance obligation to provide the products and the service, and revenue is recorded in an amount that reflects the net consideration that the Company expects to receive for each revenue stream. Prices for the products are based on agreed upon rates with customers and do not include financing components or noncash consideration. The amount of consideration received and revenue recognized is variable for fulfillment services offered to customers and is impacted by volume rebates, which are generally tied to the number of prescriptions filled during the fulfillment process by the Company and settled on a monthly basis.

The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration the Company expects to receive in exchange for the product or service. For all customers, revenue is recognized at a point-in-time (at the time the medication is shipped or at the time the fulfillment service is performed) based on the agreed upon terms with each customer when customer has control.

Payments by customers to the Company for the sale of over-the-counter medication and prescription medication are typically made by credit card payment and received by the Company within 24-48 hours. Payments by customers to the Company for fulfillment services are typically prepaid by the customer on a bi-monthly basis.

Taxes assessed by a governmental authority that the Company collects from customers that are both imposed on and concurrent with revenue producing activities (such as sales tax, value-added tax, and excise taxes) are excluded from revenue.

Contract assets and liabilities

Contract liabilities are recorded for arrangements where the Company has received customer deposits from the customer but has not yet provided the fulfillment services. The Company had contract liabilities of $2,246 and $43,453 as of June 30, 2020 and December 31, 2019, respectively, which representing refundable customer deposits. Other than accounts receivable, there were no contract assets as of June 30, 2020

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 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 net earnings per share if their inclusion would be anti-dilutive and consist of the following:

	June 30,	
	2020	**2019**
Options	5,474,975	2,892,895
Warrants	973,367	4,866,151
Series B Convertible Preferred Stock	7,346,498	6,192,788
Convertible Notes Payable	17,708,334	-
Total potentially dilutive shares	31,503,174	13,951,834

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2020	December 31, 2019
Salaries and Benefits	$ 90,338	$ 166,002
Dividend Payable	1,540,048	1,368,932
Accounting	33,908	95,980
Accrued Shipping	9,700	8,965
Accrued Interest	29,919	28,435
Accrued Rent	15,257	12,705
Sales Tax Payable	77,293	24,909
Advertising	17,000	20,000
Accrued Engineering Fees	47,000	-
Accrued Director Fees	48,000	48,583
Deferred Revenue	2,785	3,621
Other	36,729	30,812
	$ 1,947,977	$ 1,808,944

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5. Notes Payable

Notes payable consisted of the following:

	June 30, 2020	December 31, 2019
Millenium Note	$ -	$ 500,000
Kapok Promissory Note	-	1,989,678
PPP Promissory Note	890,000	-
Convertible Promissory Note	2,200,000	-
Less debt discount	(80,620)	-
Total debt	3,009,380	2,489,678
Less current portion	(341,803)	(2,489,678)
Long-term debt, less current portion	$ 2,667,577	$ -

Kapok Promissory Note

The Company was a party to a promissory note (the "Kapok Promissory Note" or “Senior Note”) and a security agreement (the "Kapok Security Agreement") with Kapok Ventures Limited, which commenced in 2017. Under the terms of the Kapok Promissory Note, the Company could borrow up to an aggregate of $1,000,000 (as amended) from Kapok. The Kapok Promissory Note bore interest on the unpaid principal balance until the full amount of principal had been paid at a variable rate equal to the prime rate plus four and one-quarter percent (4.25%) per annum (7.5% at June 30, 2020). The amount of the Promissory Note was reduced from $2,000,000 to $1,000,000 on January 31, 2020 and the Company repaid $1,000,000 of the outstanding balance on that date. Under the terms of the Kapok Promissory Note, the Company agreed to make monthly payments of accrued interest on the first day of every month, through the June 30, 2020 maturity date. The outstanding principal balance on the Kapok Promissory Note and accrued interest were repaid in full on June 20, 2020.

Millennium Promissory Note

The Company was a party to a promissory note (the "Millennium Promissory Note") and a security agreement (the "Millennium Security Agreement") (collectively, the Millennium Promissory Note and the Millennium Security Agreement, the "Millennium Loan Agreements") with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA, which commenced in 2019. Under the terms of the Millennium Promissory Note, the Company borrowed an aggregate of $500,000 from Millennium (the "Millennium Loan"). The Millennium Promissory Note bore interest on the unpaid principal balance until the full amount of principal had been paid at a fixed rate equal to 10% per annum. Under the terms of the Millennium Promissory Note, the Company agreed to make monthly payments of accrued interest on the first day of every month. The principal amount of the Millenium Promissory Note was converted into a new loan in connection with the issuance of convertible notes detailed below on February 12, 2020 and all accrued interest was repaid on February 28, 2020. The Timothy E. Reilly IRA is owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium transaction is a related party transaction.

Melrose Unsecured Note

On January 31, 2020, the Company executed an unsecured promissory note with Melrose Capital Advisors, LLC (the "Melrose Unsecured Note") whereby the Company borrowed $750,000. The Melrose Unsecured Note bore interest on the unpaid principal balance at a fixed rate equal to 10% per annum. The principal amount and all unpaid accrued interest on the Melrose Unsecured Note were due on February 10, 2020. The proceeds of the Melrose Unsecured Note were used to repay a portion of the Kapok Promissory Note. The Melrose Unsecured Note was repaid in February 2020 in connection with the issuance of convertible notes detailed below. Melrose Capital Advisors, LLC is controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Melrose transaction is a related party transaction.

Convertible Promissory Notes

The Company executed convertible note purchase agreements (the"Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") on February 7, 2020 and April 12, 2020, and convertible secured promissory notes on February 10, 2020 and April 12, 2020 (the "Convertible Notes") (collectively the "Convertible Note Agreements"). Under the terms of the Convertible Notes, the Company borrowed an aggregate of $2,200,000 from a group of eleven investors. The Convertible Notes bear interest on the unpaid principal balance until the full amount of principal has been paid or converted to common shares at a fixed rate equal to 6% per annum. Under the terms of the Convertible Notes, the Company has agreed to make quarterly payments of accrued interest on the last day of every calendar quarter beginning on March 31, 2020. The principal amount and all unpaid accrued interest on the Convertible Notes is payable on April 30, 2022. As of June 30, 2020, the outstanding principal balance on the Convertible Promissory Notes was $2,200,000 and accrued interest was $31,863.

At any time prior to the maturity date, each purchaser may convert their Convertible Note balance, in whole or in part, into shares of the Company's common stock at conversion rates ranging between $0.12 and $0.14 per share (the "Conversion Rate") which was the 30-day weighted average closing share price on the closing dates. The Company may initiate the conversion of the Convertible Notes at any time prior to the maturity date in the event that the 60-day weighted average price of a share of the Company's common stock as reported on OTC Markets exceeds $0.30 per share. The Conversion Price is subject to adjustment in the event of future dilutive transactions.

Pursuant to the Convertible Security Agreement, the Company granted a junior security interest in all of the Company's assets, in order to secure the Company's obligation to repay the Convertible Notes. The Convertible Note security interest is junior to up to $1,000,000 of senior security interests. The Convertible Loan Agreements contain customary negative covenants restricting the Company's ability to take certain actions without the consent of the agent for the Convertible Note holders, including incurring additional indebtedness, transferring or encumbering assets, paying dividends or making certain other payments, and acquiring other businesses. The repayment of the Convertible Promissory Notes may be accelerated prior to the maturity date upon certain specified events of default, including failure to pay, bankruptcy, breach of covenant, and breach of representations and warranties.

The Company received an aggregate of $1,661,969 of cash proceeds, net of costs associated with the transaction, including $500,000 from Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA. The cash proceeds from the Convertible Promissory Note were used to repay the outstanding balance of the Melrose Unsecured Note of $750,000. In addition, the Company exchanged the Millenium Promissory Note with an outstanding balance of $500,000 for a like amount of Convertible Notes. Both Melrose Capital Advisors, LLC and the Timothy E. Reilly IRA are owned and controlled by Tim Reilly who is Chairman of the Company and a beneficial owner of more than 5% of the Company's outstanding shares of common stock. As such, the Millennium investment in the Convertible Notes transaction is a related party transaction.

The Company incurred costs associated with the issuance of the Convertible Promissory Notes which totaled $38,031 which was recognized as a debt discount. The debt discount is being amortized using the effective interest method over the term of the Convertible Promissory Note.

The Company received a waiver from the majority holder of the Series B convertible preferred stock prior to completing the Convertible Note transaction. As part of the agreement to extend the waiver of the debt limitation to April 30, 2022 and increase the limitation on indebtedness from $2,500,000 to $3,000,000, the Series B Preferred shareholders were issued warrants to purchase 500,000 shares of common stock at an exercise price equal to the 30-day weighted average closing price for the Company's common stock on the date of issuance. The warrants were issued on March 5, 2020 at an exercise price of $0.11 per share which was the 30-day weighted average closing share price on the grant date and had an aggregate grant date value of $57,509 which was recognized as a debt discount. The debt discount is being amortized using the effective interest method over the term of the Convertible Note.

PPP Promissory Note

The Company entered into a business loan agreement (the "First Financial Loan Agreement") and a promissory note (the "First Financial Note") (together, the "First Financial Loan Documents") on May 1, 2020 with First Financial Bank as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to the Company under the Paycheck Protection Program (the "First Financial Loan") offered by the U.S. Small Business Administration (the "SBA") in a principal amount of $890,000 pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").. The interest rate on the First Financial Note is a fixed rate of 1% per annum. In the event that the proceeds are used to pay for qualified expenses including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt, the First Financial Loan will be forgiven To the extent that the amounts owed under the First Financial Loan, or a portion of them, are not forgiven, the Company will be required to make principal and interest payments in monthly installments of $50,086 beginning on December 1, 2020. The First Financial Note matures on May 1, 2022.

As of June 30, 2020, the Company had utilized $767,778 of the proceeds to cover the qualified expenses referenced above, and subsequently utilized the remaining balance in July. The Company is in the process of preparing the forgiveness application and organizing the supporting documents and anticipates filing the forgiveness application with the Lender by the earlier of the date that the Lender begins to accept forgiveness applications or August 31, 2020. The amount that will be forgiven will be calculated in part with reference to the Company's full-time headcount during the ten week period following the funding of the First Financial Loan that the proceeds were utilized. Any amounts forgiven will be recognized as a gain on extinguishment of debt in the period that the Company receives notice of the balance of the First Financial Loan being forgiven.

The First Financial Loan Documents include events of default. Upon the occurrence of an event of default, the Lender will have the right to exercise remedies against the Company, including the right to require immediate payment of all amounts due under the First Financial Note.

6**. Stockholders' Deficiency**

The Company is authorized to issue up to 100,000,000 shares of common stock with a par value of $0.001 per share and 1,000,000 shares of preferred stock with a par value of $0.001 per share.

OTC Market Tier Change

On April 14, 2017, the Company filed a Form 15 with the Securities and Exchange Commission terminating the registration of its common stock under Rule 12 g-4(a)(1) of the Securities Exchange Act of 1934. The Company transitioned to the OTC Pink Sheets – Current Information tier of the OTC Market on July 10, 2017.

Common Stock

On January 8, 2020, the Company issued 279,213 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director fees for the fourth quarter of 2019. The shares had an aggregate grant date value of $48,584 or $0.17 per share, which was the 30-day weighted average closing share price on the grant date. Such amounts were included in accrued expenses and other current liabilities as of June 30, 2020.

On April 22, 2020, the Company issued 105,882 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director fees for the first quarter of 2020. The shares had an aggregate grant date value of $18,000 or $0.17 per share, which was the 30-day weighted average closing share price on the grant date. Such amounts were included in accrued expenses and other current liabilities as of June 30, 2020.

Stock-based compensation expense related to common stock issued was recorded in the condensed consolidated statements of operations as a component of selling, general and administrative expenses and totaled $18,000 and $36,000 for the three and six months ended June 30, 2020, respectively, and $53,000 and $106,000 for the three and six months ended June 30, 2019, respectively.

Preferred Stock

Series B Preferred Stock

The Convertible Note transactions disclosed above triggered the anti-dilution provisions of the Series B Preferred Stock, whereby the conversion price is to be reduced pursuant to a pre-defined formula. As a result, the conversion price decreased from $0.79 to $0.67 per share of the Company's common stock effective April 14, 2020.

As of June 30, 2020 and December 31, 2019, the Company had accrued contractual dividends of $1,540,048 and $1,368,932, respectively, related to the Series B Preferred Stock.

Stock Options

Valuation

In applying the Black-Scholes option pricing model to stock options granted during the three and six months ended June 30, 2020 and 2019, the Company used the following weighted average assumptions:

	Three Months Ended June 30,		**Six Months Ended June 30**	
	2020	**2019**	**2020**	**2019**
Risk-free interest rate	0.38%	n/a	0.38% to 1.37%	2.45%
Expected dividend yield	0.00%	n/a	0.00%	0.00%
Expected volatility	181.00%	n/a	181.0%	183.0%
Weighted average expected life (contractual term) in years	5.5	n/a	5.5 to 6.0	6.0

Grants

The weighted average fair value of the stock options granted during the six months ended June 30, 2020 was $0.11.

During the six months ended June 30, 2020, the Company granted options to key employees and executives of the Company to purchase an aggregate of 2,650,000 shares of common stock under a previously approved plan at exercise price of $0.12 per share for an aggregate grant date value of $309,870. The options vest over a three-year period and have a term of ten years.

During the six months ended June 30, 2020, the Company granted options to directors of the Company to purchase an aggregate of 182,580 shares of common stock under a previously approved plan at exercise price of $0.17 per share for an aggregate grant date value of $30,000. 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 $107,475 and $206,342 for the three and six months ended June 30, 2020, respectively, and $53,545 and $115,467 for the three and six months ended June 30, 2019, respectively.

As of June 30, 2020, stock-based compensation expense related to stock options of $594,143 remains unamortized which is being amortized over the weighted average remaining period of 2.0 years.

Summary

A summary of the stock option activity during the six months ended June 30, 2020 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2020	2,694,395	$ 0.41		
Granted	2,832,580	0.11		
Exercised	-	-		
Forfeited	(52,000)	0.36		
Outstanding, June 30, 2020	5,474,975	$ 0.26	8.6	$ 528,537
Exercisable, June 30, 2020	1,574,978	$ 0.45	6.9	$ 106,025

The following table presents information related to stock options outstanding and exercisable at June 30, 2020:

Range of Exercise Price	Options Outstanding Weighted Average Exercise Price	Outstanding Number of Options	Options Exercisable Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Options
$0.09 - $0.20	$ 0.11	3,324,247	$ 0.12	6.3	674,247
$0.22 - $0.35	0.33	2,030,728	0.32	8.2	780,731
$0.53 - $1.60	0.87	66,000	0.87	3.2	66,000
$4.10 - $6.99	5.85	54,000	5.85	1.5	54,000
$0.09 - $6.99	$ 0.26	5,474,975	$ 0.45	6.9	1,574,978

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Warrants

Valuation

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Risk-free interest rate	n/a	n/a	1.41%	n/a
Expected dividend yield	n/a	n/a	0.00%	n/a
Expected volatility	n/a	n/a	181.0%	n/a
Weighted average expected life (contractual term) in years	n/a	n/a	5.0	n/a

Grants

During the six months ended June 30, 2020, the Company issued warrants to purchase an aggregate of 500,000 shares of common stock to the holders of the Series B Preferred as part of the agreement to extend the waiver of the debt limitation. The warrants were issued at an exercise price of $0.11 which was the 30-day weighted average closing share price. The warrants have a term of five years and an aggregate grant date value of $57,509 which was recognized as a debt discount on the grant date. See Footnote 5 – Notes Payable.

There was no stock-based compensation expense related to warrants in the three and six months ended June 30, 2020 and 2019. As of June 30, 2020, there was no unamortized stock-based compensation expense related to warrants.

A summary of the stock warrant activity during the six months ended June 30, 2020 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2020	473,367	$ 0.66		
Granted	500,000	0.11		
Exercised	-	-		
Forfeited	-	-		
Outstanding, June 30, 2020	973,367	$ 0.38	3.4	$ 83,075
Exercisable, June 30, 2020	973,367	$ 0.38	3.4	$ 83,075

The following table presents information related to stock warrants at June 30, 2020:

	Warrants Outstanding		Warrants Exercisable		
Range of Exercise Price	Weighted Average Exercise Price	Outstanding Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
$0.11 - $0.25	$ 0.13	610,000	$ 0.13	4.0	610,000
$0.30 - $0.35	0.41	333,367	0.41	2.4	333,367
$4.95	4.95	30,000	4.95	2.3	30,000
$0.11 - $4.95	$ 0.38	973,367	$ 0.38	3.4	973,367

7. Commitments and Contingent Liabilities

Capital Lease

On January 11, 2018, the Company entered a three-year lease agreement related to a forklift. The terms of the lease agreement require monthly payments of $542 with the option to purchase the forklift on the lease termination date for $1. The transaction was recognized as a fixed asset acquisition and capital lease obligation of $18,030.

Operating Leases

The Company is a party to a lease agreement for office and storage space for its headquarters in Florence, Kentucky. On July 30, 2018, the Company entered into an amendment of the lease agreement which extended the lease for an additional five years to December 31, 2024. The amended monthly lease rate will range between $7,955 and $9,498.

The Company accounts for rent expense using the straight-line method of accounting, deferring the difference between actual rent due and the straight-line amount. Deferred rent payable of $15,257 and $12,705 as of June 30, 2020 and December 31, 2019, respectively, has been included in accrued expenses and other current liabilities on the consolidated balance sheets.

The aggregate future minimum lease payments for operating leases, excluding renewal periods, and capital leases as of June 30, 2020 were as follows:

	Operating Leases	Capital Leases
2020	$ 50,634	$ 3,254
2021	102,787	-
2022	105,871	-
2023	109,047	
2024	112,318	-
Total	$ 480,657	$ 3,254
Less: Amount representing interest		(50)
Present value of minimum lease payments		$ 3,204

During the three and six months ended June 30, 2020, the Company recorded aggregate rent expense of $36,631 and $79,496, respectively. During the three and six months ended June 30, 2019, the Company recorded aggregate rent expense of $34,107 and $70,566, respectively.

Employment Agreement

Effective January 1, 2020, the Company entered into employment agreements with Joseph Peters and Daniel Seliga contracts (the “Employment Agreements”). The terms of the Employment Agreement include a term of one year beginning on January 1, 2020 with an extension provision allowing for automatic one-year extensions unless the Company or the employee provides advanced written notice of non-renewal, the titles and positions of Chief Executive Officer and Chief Financial Officer, respectively, an initial base salary of $128,000 and $124,000 per year, respectively, subject to certain bonus and severance provisions. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

On February 1, 2020, Mr. Peters and Mr. Seliga were granted options to purchase an aggregate of 2,000,000 shares of common stock under the 2014 Plan at an exercise price of $0.12 per share for an aggregate grant date value of $233,864. The options vest over a three-year period and have a term of ten years.

Litigation

In the ordinary course of business, we may become subject to lawsuits and other claims and proceedings that might arise from litigation matters or regulatory audits. Such matters are subject to uncertainty and outcomes are often not predictable with assurance. Our management does not presently expect that any current outstanding matters will have a material adverse effect on the Company’s consolidated financial condition or consolidated results of operations. We are not currently involved in any pending or threatened material litigation or other material legal proceedings nor have we been made aware of any penalties from regulatory audits, except as described below.

On April 9, 2018, the Company and its President and Chief Executive Officer were named in a legal complaint filed in the United States District Court by a former employee alleging, among other items, violation of the Fair Labor Standards Act, breach of contract and unjust enrichment related to nonpayment of commissions and overtime compensation and requesting a judgment in excess of $500,000. The suit is in the early stages and, as such, any potential liability cannot be determined at this time. The Company’s most recent answer to the complaint asserted numerous counterclaims against the former employee for damages and injunctive relief. Management believes that the Plaintiff’s claims are groundless and the Company intends to contest this matter vigorously.

8. Concentrations

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

Three customers represented 39%, 29% and 14% of the accounts receivable balance as of June 30, 2020.

Three vendors represented 45%, 19% and 18% during the three months ended June 30, 2020 and 46%, 20% and 17% during the six months ended June 30, 2020. Three vendors represented 39%, 23% and 18% during the three months ended June 30, 2019 and 34%, 22% and 20% during the six months ended June 30, 2019.

One vendor represented 27% of the accounts payable balance as of June 30, 2020. One vendor represented 29% of the accounts payable balance at June 30, 2019.

9. Subsequent Events

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

Issuance of Common Stock and Options to Directors

On July 15, 2020, the Company issued an aggregate of 69,231 shares of common stock and options to purchase 119,505 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees for the second quarter of 2020. The shares had an aggregate grant date value of $18,000 and were valued at $0.26 per share, which was the 30-day weighted average closing price for the Company's common stock on the date of grant. The options had an exercise price of $0.26 per share and had a grant date value of $30,000. The aggregate amount of the grant date value of the common stock and options is included in accrued expenses as other liabilities as of June 30, 2020.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our operations or the global economy as a whole. Possible effects may include, but are not limited to, mandates from federal, state and local governments that would directly prohibit our ability to conduct business, absenteeism in the Company's labor workforce and limitations on availability of products and supplies. The effects could have a material impact on our operations, and we will continue to monitor the COVID-19 situation closely.

To date, the pandemic has had a limited impact on our business operations due to our classification as an essential business in Kentucky. The Company has implemented policies and procedures based on recommended guidelines provided by the CDC in order to limit the possibility of the infection of employees, including transitioning over 50% of our staff of approximately 110 employees to telecommuting from their homes. These efforts have increased our expenses during this period. Changes in consumer purchasing behavior during this time has increased demand and, in turn, resulted in increased sales compared to last year; however, the increased demand has resulted in shortages of various prescription and over-the-counter medications which has impacted our order conversions and processing times.