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, 2021

As of June 30, 2021, the number of shares outstanding of our Common Stock was 51,761,811.

As of March 31, 2021, the number of shares outstanding of our Common Stock was 51,641,811.

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 ☒

We previously were a shell company, therefore the exemption offered pursuant to Rule 144 is not available. Anyone who purchased securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction.

HEALTHWAREHOUSE.COM, INC.

Quarterly Report

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PART A – GENERAL COMPANY INFORMATION

1) Name of the issuer and its predecessors (if any) and address of issuer's principal executive offices:

HealthWarehouse.com, Inc. (the "Company", "Issuer" or "HEWA").

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

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2) Shares outstanding.

Security information as of June 30, 2021:

Title and Class of Security	Total Shares Authorized	Total Shares Outstanding	Public Float	Beneficial Shareholders owning >= 100 shares	Shareholders of Record
Common Stock	125,000,000	51,761,811	11,135,210	182	252
Preferred Stock – Series B	790,000	517,359	-0-	2	2
Preferred Stock – Series C	10,000	9,000	-0-	3	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.

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders approved an amendment to the Corporation's Certificate of Incorporation to increase the number of authorized shares of common stock that may be issued to 125,000,000, which was effective on October 9, 2020. At the meeting, the stockholders also approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

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, 2019	**Opening Balance**	
	Common	49,018,548
	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**
1/8/19	New	53,427	Common	$0.25	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
1/8/19	New	53,427	Common	$0.25	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/8/19	New	53,427	Common	$0.25	No	Steven Weiss, Director	Stock Based Compensation	Restricted	Rule 701
1/8/19	New	53,427	Common	$0.25	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
2/11/19	New	233,463	Common	$0.26	No	Joseph Peters, CEO	Stock Based Compensation	Restricted	Rule 701
2/11/19	New	252,918	Common	$0.26	No	Daniel Seliga, CFO	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	38,856	Common	$0.30	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	38,856	Common	$0.30	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	38,856	Common	$0.30	No	Steven Weiss, Director	Stock Based Compensation	Restricted	Rule 701
4/2/19	New	38,856	Common	$0.30	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	43,586	Common	$0.30	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	43,586	Common	$0.30	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	43,586	Common	$0.30	No	Steven Weiss, Director	Stock Based Compensation	Restricted	Rule 701
7/15/19	New	43,586	Common	$0.30	No	Jack Britts, Director	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	56,867	Common	$0.23	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
10/15/19	New	56,867	Common	$0.23	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/15/19	New	56,867	Common	$0.23	No	Steven Weiss, Director	Stock Based Compensation	Restricted	Rule 701
10/15/19	New	56,867	Common	$0.23	No	Jack Britts, Director	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	50,766	Common	$0.17	No	Mark Scott, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
1/8/20	New	76,149	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/22/20	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
7/15/20	New	23,077	Common	$0.26	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
10/14/20	New	27,273	Common	$0.22	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
10/29/20	Conversion	954	Series C Preferred	$0.18	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
10/29/20	Conversion	35	Series C Preferred	$0.18	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
10/29/20	Conversion	11	Series C Preferred	$0.18	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	N/A	N/A
10/29/20	Conversion	530,000	Common	$0.18	No	New Atlantic Venture Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
10/29/20	Conversion	19,445	Common	$0.18	No	New Atlantic Entrepreneur Fund III, L.P. (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
10/29/20	Conversion	6,112	Common	$0.18	No	NAV Managers Fund, LLC (Todd Hixon, Manager, Member and CFO)	Conversion of Series C Preferred Shares into Common Shares	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
1/6/21	New	35,294	Common	$0.17	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Joe Heimbrock, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Tim Reilly, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Jack Britts, Director	Stock Based Compensation	Restricted	Rule 701
4/21/21	New	30,000	Common	$0.20	No	Sara Mannix, Director	Stock Based Compensation	Restricted	Rule 701

Number of Shares outstanding as of June 30, 2021	**Ending Balance**	
	Common	51,761,811
	Preferred Series B	517,359
	Preferred Series C	9,000

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.

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 ($) as of 3/31/2021	Principal Amount at Issuance ($)	Interest Accrued ($) as of 3/31/2021	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 previous note to Millenium Trust Company LLC; and General working capital purposes.
4/14/20	$ 525,000	$ 525,000	$ 7,875	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.

Please see Footnote 5 – Notes Payable to the Company's unaudited condensed consolidated financial statements for the six months ended June 30, 2021 for more information.

3) Interim Financial Statements

a) The following financial statements were prepared in accordance with U.S. GAAP and include the following: Condensed Consolidated Balance Sheets – as of June 30, 2021 (unaudited) and December 31, 2020; Unaudited Condensed Consolidated Statements of Operations – Three and Six Months Ended June 30, 2021 and 2020; Unaudited Condensed Consolidated Statements of Changes in Stockholders' Deficiency –Six Months Ended June 30, 2021 and 2020; Unaudited Condensed Consolidated Statements of Cash Flows –Six Months Ended June 30, 2021 and 2020; and Notes to the Unaudited Condensed Consolidated Financial Statements .

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.

4) Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of results of operations and financial condition is based upon, and should be read in conjunction with, our unaudited consolidated financial statements and accompanying notes thereto, included elsewhere in this Quarterly Report. This discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward looking statements. Reference is made to "Information Regarding Forward-Looking Statements" for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

Overview

HealthWarehouse.com, Inc. is an online 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, a market which is expected to continue to grow. The Company sells directly to individual consumers who purchase prescription medications and over-the-counter products over the Internet. HealthWarehouse.com is currently 1 of 83 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, online services companies and manufacturers.

Consumers who pay out of pocket for their prescriptions include those:

- with no insurance coverage;
- with high insurance deductibles or copays;
- with Medicare Part D plans with high deductibles;
- with Health Savings Accounts (HSA) or Flexible Savings Accounts (FSA);
- with insurance through the Affordable Care Act (ACA) with high deductibles;
- with drug exclusions and quantity restrictions placed by insurance companies.

Our objectives are to utilize our proprietary technology to make the pharmaceutical supply chain more efficient and to pass the savings on to the consumer. We have become known by consumers as a convenient, reliable, discount provider of over-the-counter products and prescription medication. We were named by Money.com as one of the five best online pharmacies of 2020. This popular personal finance website recognized that the Company has earned a reputation for being one of the most affordable pharmaceutical options and highlighted the Company's customer service offering.

Results of Operations

For the Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

	For three months ended June 30, 2021	% of Net Sales	For three months ended June 30, 2020	% of Net Sales
Net sales	$ 3,954,892	100.0%	$ 4,557,443	100.0%
Cost of sales	1,222,628	30.9%	1,561,502	34.3%
Gross profit	2,732,264	69.1%	2,995,941	65.7%
Selling, general & administrative	2,870,523	72.6%	3,030,725	66.5%
Loss from operations	(138,259)	(3.5%)	(34,784)	(0.8%)
Interest expense, net	(43,552)	(1.1%)	(58,516)	(1.3%)
Net loss	$ (181,811)	(4.6%)	$ (93,300)	(2.1%)

Net Sales

For the three months ended June 30, 2021	% Change	$ Change	For the three months ended June 30, 2020
$3,954,892	(13.2%)	($602,551)	$4,557,443

Net sales for the three months ended June 30, 2021 decreased to $3,954,892 from $4,557,443 for the three months ended June 30, 2020, an decrease of $602,551, or 13.2%. Prescription sales were $3,325,313 for the three months ended June 30, 2021, as compared to $3,282,431 for the three months ended June 30, 2020, an increase of $42,882, or 1.3%, due to an increase in new fulfillment business offset by a reduction in the direct-to-consumer (DTC) business. Over-the-counter net sales decreased by 50.5% from $1,122,054 in the three months ended June 30, 2020 to $555,065 in the three months ended June 30, 2021. The reductions in the DTC over-the-counter business were due to decreased website traffic and consumer demand relative to the unprecedented levels experienced in 2020 during the early months of the COVID 19 pandemic.

The Company will continue to focus on and dedicate resources toward customer acquisition, conversion and retention while adding fulfillment partners in 2021.

Cost of Sales and Gross Margin

	For three months ended June 30, 2021	% Change	$ Change	For three months ended June 30, 2020
Cost of sales	$1,222,628	(21.7%)	(338,874)	$1,561,502
Gross margin $	$2,732,264	(8.8%)	(263,677)	$2,995,941
Gross margin %	69.1%	3.4%		65.7%

Cost of sales were $1,222,628 for the three months ended June 30, 2021 as compared to $1,561,502 for the three months ended June 30, 2020, a decrease of $338,874 or 21.7%, primarily as a result of the decrease in order volume and improved costs realized through strategic purchasing efforts. Gross profit for the three months ended June 30, 2021 was $2,732,264, a $263,677 or 8.8% decrease when compared to the same period in 2020, due to the decrease in sales volume. Gross margin percentage increased from 65.7% for the three months ended June 30, 2020 to 69.1% for the three months ended June 30, 2021, primarily due to the improved costs discussed above and improved margins in our core direct-to-consumer prescription and over-the-counter business.

Selling, General and Administrative Expenses

	For six months ended June 30, 2021	% Change	$ Change	For six months ended June 30, 2020
S,G&A	$2,870,523	(5.3%)	($160,202)	$3,030,725
% of sales	72.6%			66.5%

Selling, general and administrative expenses totaled $2,870,523 for the three months ended June 30, 2021 compared to $3,030,725 for the three months ended June 30, 2020, a decrease of $160,202, or 5.3%. For the three months ended June 30, 2021, expense decreases included: (a) a $113,729 decrease in shipping and shipping supplies expenses; (b) a $103,706 decrease in advertising and marketing expenses; (c) a decrease in credit card fees of $37,958; and (d) a decrease of $21,458 in salary and related expenses. The decreases were partially offset by (a) a $67,140 increase in stock-based compensation expense; (b) a $13,906 increase in employee benefits expense; (c) a $13,484 increase in accounting services expense; (d) an $11,481 increase in legal expense; and (e) an $11,003 increase in corporate tax expense.

Other Income and Expense

Net interest expense decreased from $58,516 in the three months ended June 30, 2020 to $43,552 in the three months ended June 30, 2021, a decrease of $14,964, or 25.6%, primarily due to lower interest rates on the Company's outstanding convertible notes than on the short-term notes payable outstanding during 2020 and interest income earned on excess cash balances. Interest income was $965 and $293 for the three months ended June 30, 2021 and 2020, respectively, as excess funds were invested in interest bearing money market accounts.

For the Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

	For six months ended June 30, 2021	% of Net Sales	For six months ended June 30, 2020	% of Net Sales
Net sales	$ 7,773,177	100.0%	$ 9,084,782	100.0%
Cost of sales	2,389,038	30.7%	3,212,015	35.4%
Gross profit	5,384,139	69.3%	5,872,767	64.6%
Selling, general & administrative	5,610,099	72.2%	5,920,024	65.2%
Loss from operations	(225,960)	(2.9%)	(47,257)	(0.6%)
Interest expense, net	(86,876)	(1.1%)	(114,471)	(1.3%)
Net loss	$ (312,836)	(4.0%)	$ (161,728)	(1.9%)

Net Sales

For the six months ended June 30, 2021	% Change	$ Change	For the six months ended June 30, 2020
$7,773,177	(14.4%)	($1,311,605)	$9,084,782

Net sales for the six months ended June 30, 2021 decreased to $7,773,177 from $9,084,782 for the six months ended June 30, 2020, a decrease of $1,311,605, or 14.4%. Prescription sales were $6,489,107 for the six months ended June 30, 2021, as compared to $6,794,686 for the six months ended June 30, 2020, a decrease of $305,580, or 4.5%, due to a reduction in the direct-to-consumer (DTC) business offset by an increase in new fulfillment business. Over-the-counter net sales decreased by 44.3% from $2,037,817 in the six months ended June 30, 2020 to $1,134,209 in the six months ended June 30, 2021. The reductions in the DTC prescription and over-the-counter business were due to decreased website traffic and consumer demand relative to the unprecedented levels experienced in 2020 during the early months of the COVID 19 pandemic.

Cost of Sales and Gross Margin

	For six months ended June 30, 2021	% Change	$ Change	For six months ended June 30, 2020
Cost of sales	$2,389,038	(25.6%)	(822,977)	$3,212,015
Gross margin $	$5,384,139	(8.3%)	(488,628)	$5,872,767
Gross margin %	69.3%	4.7%		64.6%

Cost of sales were $2,389,038 for the six months ended June 30, 2021 as compared to $3,212,015 for the six months ended June 30, 2020, a decrease of $822,977 or 25.6%, primarily as a result of the decrease in order volume and improved costs realized through strategic purchasing efforts. Gross profit for the six months ended June 30, 2021 was $5,384,139, a $488,628 or 8.3% decrease when compared to the same period in 2020, due to the decrease in sales volume. Gross margin percentage increased from 64.6% for the six months ended June 30, 2020 to 69.3% for the six months ended June 30, 2021, primarily due to the improved costs discussed above, improved margins in our core direct-to-consumer prescription and over-the-counter business and fulfillment sales.

Selling, General and Administrative Expenses

	For six months ended June 30, 2021	% Change	$ Change	For six months ended June 30, 2020
S,G&A	$5,610,099	(5.2%)	($309,925)	$5,920,024
% of sales	72.2%			65.2%

Selling, general and administrative expenses totaled $5,610,099 for the six months ended June 30, 2021 compared to $5,920,024 for the six months ended June 30, 2020, a decrease of $309,925, or 5.2%. For the six months ended June 30, 2021, decreased expenses included: (a) a $246,573 decrease in advertising and marketing expenses; (b) a $209,653 decrease in shipping and shipping supplies expenses; (c) a decrease in credit card fees of $65,656; and (d) a decrease of $54,261 in engineering expense. The decreases were partially offset by (a) a $128,808 increase in stock-based compensation expense; (b) a $71,284 increase in salaries and related expenses (primarily increases in engineering and marketing staffing); (c) a $31,784 increase in employee benefits expense; and (d) a $27,642 increase in legal expense.

Other Income and Expense

Net interest expense decreased from $114,471 in the six months ended June 30, 2020 to $86,876 in the six months ended June 30, 2021, a decrease of $27,595, or 24.1%, primarily due to lower interest rates on the Company's outstanding convertible notes compared to the short-term notes payable outstanding during 2020 and interest income earned on excess cash balances. The decrease was partially offset by a $8,114 increase in amortization of debt discounts related to the issuance of convertible notes. Interest income was $2,158 and $293 for the six months ended June 30, 2021 and 2020, respectively, as excess funds were invested in interest bearing money market accounts.

Changes in Financial Condition

The Company's total assets were $3,473,783 at June 30, 2021, an increase of $131,839, or 3.9%, over the balance at December 31, 2020 of $3,341,944 primarily due to increases in cash on hand, offset by a reduction in accounts receivable related to the fulfillment sales and a reduction in property and equipment due to depreciation. Total liabilities were $5,341,948 at June 30, 2021, an increase of $244,642, or 4.8%, over the balance at December 31, 2020 of $5,097,306, primarily due to an increase in accounts payable and accrued expenses (dividends).

Adjusted EBITDAS

We believe Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), a financial measure not included in accounting principles generally accepted in the United States of America ("U.S. GAAP"), is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-U.S. GAAP financial measures to supplement their U.S. GAAP results; and

- Adjusted EBITDA is useful because it excludes non-cash charges, such as depreciation and amortization, stock-based compensation and one-time charges, which the amount of such expense in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods.

We use Adjusted EBITDA in conjunction with traditional U.S. GAAP measures as part of our overall assessment of our performance, to evaluate the effectiveness of our business strategies and to communicate with our lenders, stockholders and board of directors concerning our financial performance.

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with U.S. GAAP. There are limitations to using non-U.S. GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted EBITDAS through disclosure of these limitations, presentation of our financial statements in accordance with U.S. GAAP and reconciliation of Adjusted EBITDA to the most directly comparable U.S. GAAP measure, specifically net loss.

The following provides a reconciliation of net loss to Adjusted EBITDA:

	For three months ended June 30,		For six months ended June 30,	
	2021	2020	2021	2020
Net loss	$ (181,811)	$ (93,300)	$ (312,836)	$ (161,728)
Interest expense	43,552	58,516	86,876	114,471
Depreciation and amortization	33,280	33,457	66,559	66,963
EBITDA (non-GAAP)	(104,979)	(1,327)	(159,401)	19,706
Adjustments to EBITDA:				
Stock-based compensation	192,615	125,475	371,150	242,342
Adjusted EBITDA	$ 87,636	$ 124,148	$ 211,749	$ 262,048

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, 2021 and 2020. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Liquidity and Capital Resources

The Company's working capital deficiency increased from $495,751 at December 31, 2020 to $2,684,409 as of June 30, 2021 and the stockholder deficiency increased from $2,655,362 at December 31, 2020 to $2,768,165 as of June 30, 2021. For the six months ended June 30, 2021, the Company had a net loss of $312,836 and had net cash provided by operating activities of $272,497 for the six months ended June 30, 2021. As of June 30, 2021, the Company had cash and liquid investments totaling $2,137,922.

During 2020, the Company reduced its current obligations by completing a convertible note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred Stock and receiving forgiveness of its PPP loan. The Company's current obligations increased significantly during the second quarter of 2021 as the convertible notes became a current obligation. The primary component of the Company's remaining current obligations is the accrued dividends totaling $1,882,281 to the holders of the Series B Preferred shares. The Company believes it would satisfy a majority, if not all, of such dividends through the issuance of additional shares of the Series B Preferred Stock versus a required cash outlay, which is at the Company's discretion. While the maturity date of the convertible notes is April 30, 2022, the Company believes that it will continue to generate positive cash from operations and have sufficient cash and cash equivalents to repay the note balance in the event that (i) the convertible notes are not converted into shares of common stock before that date or (ii) the Company is unsuccessful at negotiating an extension of the maturity date. As such, the Company believes that its current financial resources are sufficient to satisfy the Company's estimated liquidity needs for at least twelve months from the date of filing of this quarterly report.

As of June 30, 2021 and December 31, 2020, the Company had cash and restricted cash on hand of $2,137,922 and $1,865,425, respectively. Our cash flow from operating, investing and financing activities during the six month periods ending June 30, 2021 and 2020 were as follows:

For the six months ended June 30, 2021, cash flows included net cash provided by operating activities of $272,497. This amount included a decrease in operating cash related to net loss of $312,836, offset by aggregate non-cash adjustments of $460,743 and aggregate cash provided by changes in operating assets and liabilities of $124,590 (primarily a result of an increase in accounts payable and a decrease in receivables offset by a reduction in accrued expenses). For the six months ended June 30, 2020, cash flows included net cash used in operating activities of $70,611. This amount included a decrease in operating cash related to a net loss of $161,728, partially offset by aggregate non-cash adjustments of $324,225, plus aggregate cash used in changes in operating assets and liabilities of $233,108 (primarily a result of decreases in accounts payable and accrued expenses and increases in inventory and accounts receivables).

For the six months ended June 30, 2021, the Company had no investing activities. For the six months ended June 30, 2020, net cash used in investing activities was $10,080 which was related to capital expenditures.

For the six months ended June 30, 2021, the Company had no financing activities. For the six months ended June 30, 2020, net cash provided by financing activities was $559,177. Cash was provided by $2,161,969 of proceeds from the convertible note issuance and $890,000 proceeds from notes payable offset by the repayment of notes payable of $2,489,678 and payments on equipment leases of $3,114.

5) Legal proceedings: None.

6) Defaults upon senior securities. None.

7) Other information. None.

8) Exhibits. None.

9) Issuer Certifications.

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 13, 2021 /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 13, 2021 /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

	(Unaudited) June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 2,088,135	$ 1,815,638
Restricted cash	49,787	49,787
Accounts receivable	180,194	246,518
Inventories	235,743	232,748
Prepaid expenses and other current assets	103,680	114,450
Total current assets	2,657,539	2,459,141
Property and equipment, net	816,244	882,803
Total assets	$ 3,473,783	$ 3,341,944
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 797,706	$ 626,528
Accrued expenses and other current liabilities	2,378,794	2,328,364
Convertible notes payable, net of debt discount of $34,552 as of June 30, 2021	2,165,448	-
Total current liabilities	5,341,948	2,954,892
Long term liabilities:		
Convertible notes payable, net of debt discount of $57,586 as of December 31, 2020	-	2,142,414
Total long term liabilities	-	2,142,414
Total liabilities	5,341,948	5,097,306
Commitments and contingencies		
Convertible redeemable preferred stock - Series C; par value $0.001 per share; 10,000 shares designated Series C: 9,000 issued and outstanding as of June 30, 2021 and December 31, 2020 (aggregate liqidation preference of $900,000)	900,000	900,000
Stockholders' deficiency:		
Preferred stock – par value $0.001 per share; authorized 1,000,000 shares; issued and outstanding as of June 30, 2021 and December 31, 2020 as follows:		
Convertible preferred stock - Series B – 790,000 shares designated Series B; 517,359 shares issued and outstanding as of June 30, 2021 and December 31, 2020 (aggregate liquidation preference of $6,771,324 and $6,600,207 as of June 30, 2021 and December 31, 2020, respectively)	517	517
Common stock – par value $0.001 per share; 125,000,000 shares authorized as of June 30, 2021 and December 31, 2020; 52,941,023 and 52,679,847 shares issued and 51,761,811 and 51,500,635 shares outstanding as of June 30, 2021 and December 31, 2020, respectively	52,940	52,679
Additional paid-in capital	35,264,167	34,893,278
Treasury stock, at cost, 1,179,212 shares as of June 30, 2021 and December 31, 2020	(3,419,715)	(3,419,715)
Accumulated deficit	(34,666,074)	(34,182,121)
Total stockholders' deficiency	(2,768,165)	(2,655,362)
Total liabilities and stockholders' deficiency	$ 3,473,783	$ 3,341,944

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, 2021	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
Total net sales	$ 3,954,892	$ 4,557,443	$ 7,773,177	$ 9,084,782
Cost of sales	1,222,628	1,561,502	2,389,038	3,212,015
Gross profit	2,732,264	2,995,941	5,384,139	5,872,767
Selling, general and administrative expenses	2,870,523	3,030,725	5,610,099	5,920,024
Loss from operations	(138,259)	(34,784)	(225,960)	(47,257)
Interest expense, net	(43,552)	(58,516)	(86,876)	(114,471)
Net loss	(181,811)	(93,300)	(312,836)	(161,728)
Preferred stock:				
Series B convertible preferred stock contractual dividends	(85,559)	(85,558)	(171,117)	(171,116)
Net loss attributable to common stockholders	$ (267,370)	$ (178,858)	$ (483,953)	$ (332,844)
Per share data:				
Net loss – basic and diluted	$ (0.00)	(0.00)	$ (0.01)	(0.00)
Series B convertible preferred stock contractual dividends	(0.00)	(0.00)	(0.00)	(0.00)
Net loss attributable to common stockholders - basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	51,734,119	50,768,430	51,683,540	50,716,015

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

HEALTHWAREHOUSE.COM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020

	Series C Convertible Redeemable Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Shares	Amount	Deficit	Deficiency
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 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)
Balances, January 1, 2021	9,000	$ 900,000	517,359	$ 517	52,679,847	$ 52,679	$ 34,893,278	1,179,212	$ (3,419,715)	$ (34,182,121)	$ (2,655,362)
Stock-based compensation	-	-	-	-	120,000	120	347,010	-	-	-	347,130
Common Shares issued for previously accrued compensation	-	-	-	-	141,176	141	23,859	-	-	-	24,000
Contractual dividends on Series B convertible preferred stock	-	-	-	-	-	-	-	-	-	(171,117)	(171,117)
Net loss	-	-	-	-	-	-	-	-	-	(312,836)	(312,836)
Balances, June 30, 2021	9,000 0	$ 900,000	517,359	$ 517	52,941,023	$ 52,940	$ 35,264,147	1,179,212	$ (3,419,715)	$ (34,666,074)	$ (2,768,185)

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

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

	For the Six Months Ended June 30	
	2021	2020
Cash flows from operating activities		
Net loss	$ (312,836)	$ (161,728)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,559	66,963
Stock-based compensation	371,150	242,342
Amortization of debt discount	23,034	14,920
Changes in operating assets and liabilities:		
Accounts receivable	66,324	(43,289)
Inventories	(2,995)	(51,349)
Prepaid expenses and other current assets	10,770	5,526
Accounts payable	171,178	(112,496)
Accrued expenses and other current liabilities	(120,687)	(31,500)
Net cash provided by (used in) operating activities	272,497	(70,611)
Cash flows from investing activities		
Capital expenditures	-	(10,080)
Net cash used in investing activities	-	(10,080)
Cash flows from financing activities		
Repayment of capital lease	-	(3,114)
Repayment of notes payable	-	(2,489,678)
Proceeds from note payable - refundable	-	890,000
Proceeds from convertible notes payable	-	2,161,969
Net cash provided by financing activities	-	559,177
Net increase in cash	272,497	478,486
Cash, cash equivalents and restricted cash - beginning of period	1,865,425	1,068,690
Cash, cash equivalents and restricted cash - end of period	$ 2,137,922	$ 1,547,176
Cash paid for:		
Interest	$ 66,000	$ 52,552
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	$ 171,117	$ 85,558
Common stock issued to satisfy accrued directors' fees	$ 48,000	$ 48,583
Options issued to satisfy accrued directors' fees	$ 80,000	$ -

The accompanying notes are an integral part of these 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. Liquidity and Capital Resources

The Company’s working capital deficiency was $2,684,409 and the stockholder deficiency was $2,768,165 as of June 30, 2021. For the six months ended June 30, 2021, the Company had a net loss of $312,836, but generated net cash provided by operating activities of $272,497. As of June 30, 2021, the Company had cash, cash equivalents and restricted cash totaling $2,137,922.

During 2020, the Company reduced its current obligations by completing the Convertible Note issuance, repaying short-term notes payable obligations, entering a Conversion and Standstill Agreement with the holders of the Series C Redeemable Preferred stock and receiving forgiveness of its PPP loan. The primary component of the Company’s remaining current obligations is the accrued dividends totaling $1,882,281 to the holders of the Series B Preferred shares. The Company believes it would satisfy a majority if not all of such dividends through the issuance of additional shares of the Series B Preferred stock versus a required cash outlay, which is at the Company’s discretion. While the maturity date of the convertible notes is April 30, 2022, the Company believes that it will continue to generate positive cash from operations and have sufficient cash and cash equivalents to repay the note balance in the event that (i) the convertible notes are not converted into shares of common stock before that date or (ii) the Company is unsuccessful at negotiating an extension of the maturity date. As such, the Company believes that its current financial resources are sufficient to satisfy the Company’s estimated liquidity needs for at least twelve months from the date of filing of these unaudited consolidated financial statements.

Accordingly, the accompanying unaudited 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 unaudited consolidated financial statements do not necessarily represent realizable or settlement values. The unaudited 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 unaudited consolidated financial statements include the accounts of HealthWarehouse.com, Inc., Hwareh.com, Inc. and Hocks.com, Inc., its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited 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 unaudited 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.

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.

Risks and Uncertainties

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. The Company continues to experience shortages in the supply of medications, albeit to a lesser extent than was experienced during the first half of the year.

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, 2021. 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.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". ASU 2019-12 removes specific exceptions to the general principles in Topic 740 in U.S. GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period:

-Exception to the incremental approach for intraperiod tax allocation;
-Exceptions to accounting for basis differences when there are ownership changes in foreign investments; and
-Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

ASU 2019-12 also improves financial statement preparers' application of income tax-related guidance and simplifies U.S. GAAP for:

-Franchise taxes that are partially based on income;
-Transactions with a government that result in a step up in the tax basis of goodwill;
-Separate financial statements of legal entities that are not subject to tax; and
-Enacted changes in tax laws in interim periods.

This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. If early adoption is elected, the entity should adopt all amendments in the same period. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity". ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted earnings per share (EPS) calculation in certain areas. This standard is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements" ("ASU 2020-10"). This ASU contains amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). Many of the amendments arose because the FASB provided an option to give certain information either on the face of the financial statements or in the notes to financial statements and that option only was included in the Other Presentation Matters Section (Section 45) of the Codification. The option to disclose information in the notes to financial statements should have been codified in the Disclosure Section as well as the Other Presentation Matters Section (or other Section of the Codification in which the option to disclose in the notes to financial statements appears). This standard is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, "Earnings per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options". This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses:

- How an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange;
- How an entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; and
- How an entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange.

This standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. 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 we believe 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 either prepaid by the customer or paid by check or electronic funds transfer upon receipt of a monthly invoice. The Company extends terms to some fulfillment customers ranging from 10 to 30 days.

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 $42,935 as of June 30, 2021, which represented refundable customer deposits and was recorded as a reduction of accounts receivable. Other than accounts receivable, there were no contract assets as of June 30, 2021.

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,	
	2021	2020
Options	9,993,991	5,474,975
Warrants	898,367	973,367
Series B Convertible Preferred Stock	7,656,914	7,346,498
Series C Redeemable Convertible Preferred Stock	5,000,000	-
Convertible Notes Payable	17,708,338	17,708,338
Total potentially dilutive shares	41,257,610	31,503,178

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30 2021	December 31, 2020
Salaries and Benefits	$ 73,789	$ 172,363
Dividend Payable	1,882,281	1,711,165
Accounting	15,738	59,738
Accrued Shipping	15,855	(710)
Accrued Interest	28,435	28,435
Accrued Rent	17,411	16,334
Sales Tax Payable	130,918	117,863
Accrued Taxes	10,303	5,903
Advertising	35,800	50,700
Accrued Engineering Fees	47,000	47,000
Accrued Director Fees	64,000	64,000
Deferred Revenue	1,549	2,387
Other	55,715	53,186
	$ 2,378,794	$ 2,328,364

5. Notes Payable

Notes payable consisted of the following:

	June 30, 2021	December 31, 2020
Convertible Promissory Note	$ 2,200,000	$ 2,200,000
Less debt discount	(34,552)	(57,586)
Total debt	2,165,448	2,142,414
Less current portion	(2,165,448)	-
Long-term debt, less current portion	$ -	$ 2,142,414

Convertible Promissory Notes

The Company is a party to convertible note purchase agreements (the"Convertible Purchase Agreements") and a security agreement, as amended, (the "Convertible Security Agreement") dated February 7, 2020 and April 12, 2020, and convertible secured promissory notes dated 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. The principal amount and all unpaid accrued interest on the Convertible Notes is payable on April 30, 2022. As of June 30, 2021, the outstanding principal balance on the Convertible Promissory Notes was $2,165,448, net of the debt discount of $34,552, and accrued interest was $33,000.

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.

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. In addition, the Company exchanged a promissory note with Millennium Trust Company LLC Custodian FBO Timothy E. Reilly IRA with an outstanding balance of $500,000 for a like amount of Convertible Notes. 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 investment in the Convertible Notes transaction is a related party transaction.

6. Stockholders' Deficiency

The Company is authorized to issue up to 125,000,000 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.

In October 2020, at the annual meeting of stockholders of the Corporation, the stockholders of the Corporation approved an amendment to the Corporation's Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of 1-for-50 and to decrease the number of authorized shares of common stock in proportion to the reverse stock split. However, the Board of Directors has not yet determined if or when to effect the reverse stock split.

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. On May 11, 2021, the Company was approved for listing and began trading on the OTCQB Market.

Common Stock

On January 6, 2021, the Company issued 141,176 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 2020. The shares had an aggregate grant date value of $24,000 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 December 31, 2020.

On April 21, 2021, the Company issued 120,000 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 2021. The shares had an aggregate grant date value of $24,000 or $0.20 per share, which was the 30-day weighted average closing share price on the grant date.

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 $24,000 and $48,000 for the three and six months ended June 30, 2021, respectively, and $18,000 and $36,000 for the three and six months ended June 30, 2020, respectively.

Preferred Stock

Series B Preferred Stock

As of June 30, 2021 and December 31, 2020, the Company had accrued contractual dividends of $1,882,281 and $1,711,165, 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, 2021 and 2020, the Company used the following weighted average assumptions:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Risk-free interest rate	0.99%	0.38%	0.32% to 0.99%	0.38% to 1.37%
Expected dividend yield	0.0%	n/a	0.0%	0.0%
Expected volatility	178.0%	181.0%	178.0%	181.0%
Weighted average expected life (contractual term) in years	5.5	5.5	5.5 to 6.0	5.5 to 6.0

Grants

The weighted average fair value of the stock options granted during the six months ended June 30, 2021 was $0.17.

During the six months ended June 30, 2021, the Company granted stock options to purchase an aggregate 451,636 shares of common stock to directors of the Company for payment of their accrued noncash portion of their director's fees. The options had an exercise price ranging from $0.17 to $0.20 per share and had an aggregate grant date value of $80,000, of which $40,000 was included in accrued expenses as other liabilities as of December 31, 2020.

During the six months ended June 30, 2021, the Company granted stock options to key employees and two executives to purchase an aggregate of 3,875,000 shares of common stock under a previously approved plan at an exercise prices ranging between $0.16 and $0.17 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 aggregate grant date value of $625,347, vest over a three-year period 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 $168,615 and $323,150 for the three and six months ended June 30, 2021, respectively, and $107,475 and $206,342 for the three and six months ended June 30, 2020, respectively.

As of June 30, 2021, stock-based compensation expense related to stock options of $821,393 remains unamortized which is being amortized over the weighted average remaining period of 2.1 years.

Summary

A summary of the stock option activity during the six months ended June 30, 2021 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2021	5,732,355	$ 0.26		
Granted	4,326,636	0.17		
Exercised	-	-		
Forfeited	(65,000)	1.07		
Outstanding, June 30, 2021	9,993,991	$ 0.21	8.4	$ 279,296
Exercisable, June 30, 2021	3,777,325	$ 0.29	7.2	$ 101,680

The following table presents information related to stock options outstanding and exercisable at June 30, 2021:

	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 - $0.20	$ 0.14	7,600,883	$ 0.13	7.7	2,009,215
$0.22 - $0.35	$ 0.32	2,288,108	$ 0.31	6.9	1,663,110
$0.53 - $1.60	$ 0.87	66,000	$ 0.87	2.2	66,000
$4.10 - $6.99	$ 6.52	39,000	$ 6.52	0.9	39,000
$0.09 - $6.99	$ 0.21	9,993,991	$ 0.29	7.2	3,777,325

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	
	2021	2020	2021	2020
Risk-free interest rate	n/a	n/a	n/a	1.41%
Expected dividend yield	n/a	n/a	n/a	0.00%
Expected volatility	n/a	n/a	n/a	181.0%
Weighted average expected life (contractual term) in years	n/a	n/a	n/a	5.0

There was no stock-based compensation expense related to warrants in the six months ended June 30, 2021 and 2020. As of June 30, 2021, 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, 2021 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Outstanding, January 1, 2021	973,367	$ 0.38		
Granted	-	-		
Exercised	-	-		
Forfeited	(75,000)	0.25		
Outstanding, June 30, 2021	898,367	$ 0.39	2.6	$ 35,000
Exercisable, June 30, 2021	898,367	$ 0.39	2.6	$ 35,000

The following table presents information related to stock warrants at June 30, 2021:

	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	$ 0.12	535,000	$ 0.12	3.4	535,000
$0.30 - $0.50	$ 0.41	333,367	$ 0.41	1.4	333,367
$4.95	$ 4.95	30,000	$ 4.95	1.3	30,000
$0.11 - $4.95	$ 0.39	898,367	$ 0.39	2.6	898,367

7. Commitments and Contingent Liabilities

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 $17,411 and $16,334 as of June 30, 2021 and December 31, 2020, 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, 2021 were as follows:

	Operating Leases
2021	$ 52,153
2022	105,871
2023	109,047
2024	112,318
Total	$ 379,389

During the three months and six months ended June 30, 2021, the Company recorded aggregate rent expense of $38,523 and $71,541, respectively. During the three and six months ended June 30, 2020, the Company recorded aggregate rent expense of $36,631 and $79,496, 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. Effective January 1, 2021, the Compensation Committee approved an increase in the base salaries for Mr. Peters and Mr. Seliga to $138,000 and $134,000 per year, respectively. Each of the Employment Agreements are bound by restrictive covenants regarding disclosure of confidential information, non-solicitation and employee non-competition.

On January 21, 2021, Mr. Peters and Mr. Seliga were each granted options to purchase 1,200,000 shares of common stock under the 2014 Plan at an exercise price of $0.17 per share for an aggregate grant date value of $396,178. The options vest over a three-year period and have a term of ten years. See Note 6.

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 Company, its President and Chief Executive Officer and the former employee entered into a Settlement Agreement and Full and Final Mutual Release which was effective June 1, 2021. The Company had no financial obligation as part of the terms of the settlement.

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 38%, 26% and 17% of the accounts receivable balance (excluding the contract liabilities) as of June 30, 2021. Three customers represented 39%, 29% and 14% of the accounts receivable balance as of June 30, 2020.

Three suppliers represented 33%, 33% and 17% of total inventory purchases the three months ended June 30, 2021 and three suppliers represented 37%, 33% and 11% during the six months ended June 30, 2021. 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.

One vendor represented 32% of the accounts payable balance as of June 30, 2021. One vendor represented 27% of the accounts payable balance as of June 30, 2020.

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 noted below:

Issuance of Common Stock and Options to Directors

On July 8, 2021, the Company issued an aggregate of 133,332 shares of common stock and options to purchase 230,760 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 2021. The shares had an aggregate grant date value of $24,000 and were valued at $0.18 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 $0.18 per share and had a grant date value of $40,000. 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, 2021.