HealthWarehouse.com, Inc.
Form 10-Q
November 23, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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

For the transition period from to

Commission File Number 0-13117

HealthWarehouse.com, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-2413505 (I.R.S. Employer Identification No.)
100 Commerce Boulevard, Cincinnati, Ohio (Address of Principal Executive Offices)	45140 (Zip Code)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

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

As of November 20, 2009, there were 189,557,879 shares of common stock outstanding.

HEALTHWAREHOUSE.COM, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

The condensed consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2008 included in our current report on Form 8-K as filed on May 15, 2009 with the Securities and Exchange Commission.

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

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 11,810	$ 357,938
Accounts receivable	50,265	12,317
Inventories – finished goods	421,796	84,480
Prepaid expenses and other current assets	187,399	-
Total current assets	$ 671,270	$ 454,735
Property and equipment, net	429,045	315,969
Website development costs	180,169	70,397
Total assets	$ 1,280,484	$ 841,101
Liabilities and Stockholders' (Deficiency) Equity		
Current liabilities		
Accounts payable – related parties	$ -	$ 380,279
Accounts payable – trade	16,733	156,448
Accrued expenses	184,791	-
Total current liabilities	$ 201,524	$ 536,727
Convertible notes, net of deferred debt discount of $26,029	1,173,971	-
Total liabilities	$ 1,375,495	$ 536,727
Commitments and contingencies		
Stockholders' equity		
Preferred stock – par value $.001 per share; authorized 1,000,000 shares; 200,000 shares designated Series A; 155,557 shares issued and outstanding (aggregate liquidation preference $280,003)	156	-
Common stock – par value $.001 per share; authorized 750,000,000 shares; 189,557,879 and 154,876,449 shares issued and outstanding	189,558	154,876
Additional paid-in capital	1,799,688	827,456
Accumulated deficit	(2,084,413)	(677,958)
Total stockholders' (deficiency) equity	(95,011)	304,374
Total liabilities and stockholders' (deficiency) equity	$ 1,280,484	$ 841,101

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

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

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Net sales	$ 1,006,610	$ 396,547	$ 2,672,195	$ 726,920
Cost of sales	658,376	310,981	1,847,196	564,530
Gross profit	348,234	85,566	824,999	162,390
Operating expenses:				
Selling, general and administrative expenses	947,465	273,062	2,181,768	518,584
Depreciation expense	16,280	-	37,504	-
Total operating expenses	963,745	273,062	2,219,272	518,544
Loss from operations	(615,511)	(187,496)	(1,394,273)	(356,194)
Interest income (expense)	(3,603)	1,197	(9,799)	-
Loss before income taxes	(619,114)	(186,299)	(1,404,072)	(356,194)
Income tax expense	-	-	(2,383)	-
Net loss	$ (619,114)	$ (186,299)	$ (1,406,455)	$ (356,194)
Per share data:				
Net loss per common share				
Basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)
Weighted average number of common shares outstanding				
Basic and diluted	189,436,978	154,876,449	172,553,570	154,876,449

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

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

	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Cash flows from operating activities		
Net loss	$ (1,406,455)	$ (356,194)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	37,504	-
Non-cash stock-based compensation	211,797	-
Amortization of deferred debt discount	19,424	-
Changes in operating assets and liabilities:		
Accounts receivable	(37,948)	(6,356)
Inventories – finished goods	(337,316)	-
Prepaid expenses and other current assets	(187,399)	-
Accounts payable – trade	(286,922)	315,683
Accounts payable – related parties	(384,282)	-
Accrued expenses	16,260	-
Net cash used in operating activities	(2,355,407)	(46,867)
Cash flow from investing activities		
Cash received in share exchange	1,220,520	-
Acquisition of property and equipment	(150,580)	(273,971)
Expenses paid in conjunction with share exchange	(225,000)	-
Website development costs	(109,772)	(74,063)
Net cash provided by (used in) investing activities	735,168	(348,034)
Cash flows from financing activities		
Proceeds from sale of common stock	50,196	872,744
Proceeds from option/warrant exercises	23,915	-
Proceeds from sale of convertible notes	1,200,000	-
Net cash provided by financing activities	1,274,111	872,744
Net increase(decrease) in cash and cash equivalents	(346,128)	477,843
Cash and cash equivalents – beginning of period	357,938	32,828
Cash and cash equivalents – end of period	$ 11,810	$ 510,671
Non-cash investing and financing activities:		
Net assets received in share exchange:		
Cash	$ 1,220,520	
Accounts payable	(147,276)	
Accrued expenses	(168,531)	

Net assets	$	904,713

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

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

1. Organization, Basis of Presentation and Reverse Recapitalization

HealthWarehouse.com, Inc. (together with its subsidiary, the “Company”) was formed as a New Jersey corporation in 1982 as MicroFrame, Inc. for the purpose of designing, developing and marketing a broad range of remote network management and remote maintenance and security products for mission critical voice and data communications networks. In March 1999, the Company purchased all of the outstanding share capital of SolCom Systems Limited, a company incorporated under the Companies Act 1985 of the United Kingdom. SolCom was a developer of remote monitoring technology. Simultaneously with the consummation of the SolCom acquisition, the Company reincorporated in the State of Delaware and in the process changed its name to ION Networks, Inc. As ION Networks, the Company developed and manufactured software and hardware solutions for monitoring and managing mission-critical voice, data, video and environmental applications and networking systems. In December 2007, the Company sold substantially all of its operating assets to Cryptek, Inc., a Delaware corporation. Pursuant to the Cryptek sale, the Company changed its name to Clacendix, Inc. Following the date of the Cryptek sale and until the closing of the share exchange transaction with Hwareh.com, Inc., Clacendix existed as a shell company with no operations that was seeking a target company with which to merge or to complete a business combination.

On May 14, 2009, Clacendix completed a share exchange transaction pursuant to the terms of a Securities Exchange Agreement, dated as of May 14, 2009. Under the Securities Exchange Agreement, Clacendix acquired all the outstanding capital stock of Hwareh.com, Inc. (formerly named HealthWarehouse.com, Inc.). As a result of the exchange, the former stockholders of Hwareh.com, Inc. owned 155,194,563 shares or approximately 82.4% of the outstanding shares of common stock of Clacendix. This transaction was accounted for as a reverse recapitalization, whereby Hwareh.com, Inc. is deemed to be the accounting acquirer for accounting purposes. Following the closing of the share exchange transaction with Hwareh.com, Clacendix succeeded to the business of Hwareh.com as its sole line of business. Effective August 5, 2009, Clacendix changed its corporate name to HealthWarehouse.com, Inc.

The Company is a U.S. licensed virtual retail pharmacy (“VRP”) and healthcare e-commerce company that sells brand name and generic prescription drugs as well as over-the-counter (“OTC”) medical products. The Company’s objective is to be viewed by individual healthcare product consumers as a low-cost, reliable and hassle-free provider of prescription drugs and OTC medical products.

The Company is presently licensed as a mail-order pharmacy for sales to 43 states and the District of Columbia, and intends to apply for and obtain licenses to sell prescriptions in all 50 states by the end of 2009. The Company has begun accepting health insurance as part of its prescription program, contracting with insurance providers based on customer demand and business opportunity.

The condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for certain financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the condensed consolidated balance sheet as of September 30, 2009, the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to make the Company’s financial position, results of operations and cash flows at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 not misleading have been made. The results of operations for the three months ended September 30, 2009 and 2008 are not necessarily indicative of results that would be expected for the full year or any other interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the current report on Form 8-K filed with the Securities and Exchange Commission on May 15, 2009.

2. Going Concern and Management's Liquidity Plans

As of September 30, 2009, the Company had $11,810 in cash and cash equivalents and working capital of $469,746. During the nine months ended September 30, 2009, the Company generated revenue of approximately $2,700,000 and a net loss of approximately $1,400,000. For the nine months ended September 30, 2009, cash flows included net cash used in operating activities of approximately $2,355,000, net cash provided by investing activities of approximately $735,000 and net cash provided by financing activities of approximately $1,275,000.

Since inception, the Company has financed its operations primarily through product sales to customers, and debt and private equity investments by existing stockholders, officers and directors. During the third quarter of 2009, the Company's cash and cash equivalents were reduced by approximately $1,400,000, primarily due to an unanticipated sharp reduction in credit terms offered by the Company's largest vendor, which resulted in the Company accelerating payments in excess of $800,000 to that vendor, continued operating losses and failure of an investor to complete a contractual funding to the Company of $400,000.

Based upon projected operating expenses, the Company believes that its working capital as of September 30, 2009 may not be sufficient to fund its plan of operations for the next twelve months. The Company anticipates that it will need to raise additional capital in order to meet operations and execute its business plans. Management has also indicated that the Company is taking certain steps to improve its operations and cash flows, including the re-launch of its corporate website, improved inventory management and an increase in the number of suppliers. Management has indicated that the Company is in discussions with certain parties regarding various financing opportunities including selling additional capital stock and/or entering into debt facilities. However, the Company does not know at this time whether the any such transactions between the Company and any third party, will be consummated and, if consummated, when it might occur, or if the terms would be favorable to us. If the Company cannot raise sufficient funds on acceptable terms, it may have to curtail its level of expenditures and scope of operations.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern and the realization of assets and the satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The 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 accompanying consolidated financial statements include the accounts of HealthWarehouse.com, Inc. and Hwareh.com, Inc., its wholly-owned subsidiary. All material inter-company balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally two to five years. Expenditures for maintenance and repairs, which do not extend the economic useful life of the related assets, are charged to operations as incurred. Gains or losses on disposal of property and equipment are reflected in the statements of operations in the period of disposal.

Website Development Costs

In accordance with Accounting Standards Codification ("ASC") 350-50 (prior authoritative literature: Emerging Issues Task Force ("EITF") Issue No. 00-2, "Accounting for Web Site Development Costs") the Company capitalized $109,772 and $74,063 of website development costs for the nine months ended September 30, 2009 and 2008, respectively. No amortization expense has been recorded through September 30, 2009 as the capitalized projects have not been completed.

Shipping and Handling Costs

Shipping and handling costs incurred are not billed to the customer and are recognized in selling, general and administrative expenses. Such amounts aggregated approximately $87,311 and $219,651 for the three and nine months ended September 30, 2009, respectively, and $43,766 and $45,892 for the three and nine months ended September 30, 2008, respectively.

Fair Value of Financial Instruments

The carrying value of items included in working capital approximates fair value because of the relatively short maturity of these instruments. The convertible debt approximates fair value because the terms are substantially similar to similar debt in the marketplace.

Net Income/(Loss) Per Share of Common Stock

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common stock. Potentially dilutive securities of 51,077,156 at September 30, 2009 are excluded from the computation of diluted net loss per share as their inclusion would be antidilutive. These potentially dilutive securities consist of stock options to purchase up to 30,096,178 shares of common stock, warrants to purchase up to 3,570,181 shares of common stock, convertible promissory notes convertible into 15,855,227 shares of common stock and convertible preferred stock convertible into 1,555,570 shares of common stock. The Company had no potentially dilutive securities at September 30, 2008.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of ASC 718 (prior authoritative literature: SFAS 123R, "Share-Based Payment") . Stock-based compensation expense for all stock-based payment awards is based on the estimated grant-date fair value. The Company recognizes these compensation costs over the requisite service period of the award, which is generally the option vesting term. Option valuation models require the input of highly subjective assumptions including the expected life of the option. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The fair value of stock-based payment awards was estimated using the Black-Scholes option pricing model using a volatility figure derived from an index of comparable entities. Management will review this assumption as the Company's trading history becomes a better indicator of value. The Company accounts for the expected life of options in accordance with the "simplified" method provisions of SEC Staff Accounting Bulletin ("SAB") No. 110, which enables the use of the simplified method for "plain vanilla" share options as defined in SAB No. 107.

Stock-based compensation for the three and nine months ended September 30, 2009 was recorded in the consolidated statements of operations in selling general and administrative line item and totaled $86,157 and $211,797, respectively. There was no stock-based compensation incurred during the three or nine month period ended September 30, 2008.

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

	Three and Nine Months Ended September 30, 2009
Risk-free interest rate	.10% to 2.65%
Dividend yield	N/A
Expected volatility	57.6%
Expected life in years	0.04 to 6.50
Expected forfeiture rate (through term)	0%

4. Income Taxes

The Company adopted the provisions of ASC Topic 740-10 (prior authoritative literature: FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.) ASC 740-10 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as “unrecognized benefits.” A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise’s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740-10.

In accordance with ASC 740-10, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as “Interest expense” in the consolidated statements of operations. Penalties would be recognized as a component of “Selling, general and administrative expenses.”

In many cases, the Company’s tax positions are related to tax years that remain subject to examination by relevant tax authorities. The Company files income tax returns in the United States (federal) and in various state and local jurisdictions. In most instances, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2005.

The adoption of the provisions of ASC 740-10 on January 1, 2009 did not have a material impact on the Company’s consolidated financial position and results of operations. As of September 30, 2009, the Company believes that there are no significant uncertain tax positions requiring recognition in these consolidated financial statements.

The Company consummated a share exchange transaction with Hwareh.com, Inc on May 14, 2009. The share exchange transaction is being accounted for as a "reverse recapitalization," since the former stockholders of Hwareh.com own a majority of the outstanding shares of the Company's common stock immediately following the transaction, and Hwareh.com is deemed to be the accounting acquirer in the transaction. As a result, at September 30, 2009, due to the change in control under Section 382 of the Internal Revenue Code, utilization of any pre-share exchange tax benefits would be substantially limited.

5. Convertible Debt

In contemplation of and contingent to closing the share exchange transaction, in the quarter ended June 30, 2009, Hwareh.com, Inc. received the proceeds of convertible promissory notes aggregating $1,200,000("Convertible Debentures"). The notes have a maturity date of two years from the date of issuance and bear interest at 3.25% per annum, payable quarterly in arrears and in full upon conversion. The notes are convertible into 15,855,227 shares of the Company's common stock at an effective conversion price of $0.0756848 per share. The notes are convertible at any time at the option of the holder. The Company can also cause the conversion of the notes at its option at any time before maturity and after the shares of the Company's common stock that are issuable upon conversion of the notes have been registered for resale pursuant to an effective registration statement. The notes have customary anti-dilution provisions in connection with any split, subdivision or combination of our common stock. Payment of principal, if not converted, and interest under the notes has been guaranteed by the Company's President and Chief Executive Officer and a 10% or greater stockholder. (See Note10) The debt discount applicable to the notes from the issuance of warrants along with the notes was $45,453 (see below). As of September 30, 2009, none of the Hwareh.com convertible promissory notes had been converted.

In connection with the issuance of the Hwareh.com convertible promissory notes, Hwareh.com, Inc. also issued warrants to purchase common stock for up to 8,068,197 shares of the Company's common stock (warrants expiring on May 31, 2009, June 30, 2009 and December 31, 2009 to purchase up to a maximum of 927,833, 3,570,182 and 3,570,182 shares, respectively, of the Company's common stock at an exercise price of $0.0010778, $0.0560196 and $0.0560196 per share, respectively). Of these warrants, warrants to purchase 927,833 shares of the Company's common stock were exercised on May 31, 2009, warrants to purchase up to 3,570,182 shares of the Company's common stock expired on June 30, 2009 without being exercised and warrants to purchase up to 3,570,182 shares of the Company's common stock remain outstanding and expire on December 31, 2009. The warrants have customary anti-dilution provisions in connection with any split, subdivision or combination of the Company's common stock. The fair value of the warrants was estimated as $45,453 using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2009, the Company recognized $4,003 and $19,424 in amortization of the deferred debt discount.

The convertible promissory notes and warrants have registration rights with respect to the shares of the Company's common stock that are issuable upon conversion or exercise of the notes or warrants, respectively. The Company was obligated to file an initial registration statement providing for the resale of the shares of the Company's common stock underlying the convertible promissory notes and warrants by August 12, 2009, and to use its best efforts to have the registration statement declared effective as soon as practicable thereafter. Since the Company did not file on or before August 12, 2009, it must pay liquidated damages of $12,000 in the aggregate, an amount equal to 1% of the aggregate investment amount; such amount has been accrued in the accompanying Condensed Consolidated Financial Statements, however, the Company is currently in discussions with the holders to waive these penalties.

6. Stockholders' (Deficiency) Equity

Common Stock

Details of outstanding shares of common stock are as follows:

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	Shares
Recapitalized shares of Hwareh.com, Inc's stockholders	155,194,563
Shares of HealthWarehouse.com, Inc.'s stockholder at exchange	33,056,161
Warrants exercised	1,152,833
Options exercised	154,322
Common stock shares outstanding at September 30, 2009	189,557,879

Prior to the share exchange, Hwareh.com, Inc. sold 318,114 shares of common stock in a private placement and received proceeds of $50,196.

On May 31, 2009, the holder of a warrant exercised that warrant, at an exercise price of $0.0010778 per share or $1,000, and received 927,833 shares of the Company's common stock.

On June 10, 2009, a former director and holder of a warrant exercised that entire warrant, at an exercise price of $0.05 per share or $6,250, and received 125,000 shares of the Company's common stock. In a separate transaction on the same day, the same person exercised stock options to purchase 89,822 shares of common stock at an average price of $0.0869 per share or $7,807.

On August 31, 2009, the holder of a warrant exercised that warrant, at an exercise price of $0.05 per share or $5,000 in the aggregate, and received 100,000 shares of the Company's common stock.

On September 16, 2009 a former director exercised stock options to purchase 64,500 shares of common stock at an average price of $0.06 per share or $3,858.

Preferred Stock

The Company has designated 200,000 of the 1,000,000 authorized shares of preferred stock as Series A Preferred Stock ("Preferred Stock"). The Preferred Stock is non-voting, has a standard liquidation preference equal to its purchase price, and does not pay dividends. As of September 30, 2009, there were 155,557 shares of Preferred Stock outstanding, which are convertible into 1,555,570 shares of common stock. The holders can call the conversion of the Preferred Stock at any time.

Incentive Compensation/Stock Option Plans

On May 15, 2009, the Company adopted its 2009 Incentive Compensation Plan (the "2009 Plan"). The total number of shares of common stock that may be subject to the granting of awards under the 2009 Plan is 30,000,000, plus 3,628,500 shares that remained available to be issued on May 15, 2009 and were assumed as part of the share exchange from Clacendix' previously existing stock option plans. The 2009 Plan imposes individual limitations on the amount of certain awards. Under these limitations, during any fiscal year of the Company, the number of options, stock appreciation rights, shares of restricted stock, shares of deferred stock, performance shares and other stock based-awards granted to any one participant under the 2009 Plan may not exceed 5,000,000 shares, subject to adjustment in certain circumstances. The maximum amount that may be paid out as performance units in any 12-month performance period is an aggregate value of $2,000,000, and the maximum amount that may be paid out as performance units in any performance period greater than 12 months is an aggregate value of $4,000,000. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the board of directors or committee of the Company's board of directors designated to administer the 2009 Plan (the "committee"), except that no option or stock appreciation right may have a term exceeding ten years. The exercise price per share subject to an option and the grant price of a stock appreciation rights are determined by the committee, but in the case of an incentive stock option (ISO) must not be less than the fair market value of a share of common stock on the date of grant.

On May 15, 2009, the Company granted stock options to purchase up to 8,436,000 shares of its common stock under the 2009 Plan, with an exercise price of $0.04 per share. Of these stock options, (a) 4,218,000 vested immediately, have a five-year term, and are valued at $60,739 using the Black-Scholes option pricing model and (b) 4,218,000 vest 33.33% on May 15, 2010 and then an additional 8.33% vest on the last day of each calendar quarter commencing on May 15, 2010, have a ten-year term, and are valued at $97,248 using the Black-Scholes option pricing model.

On May 20, 2009, the Company granted stock options to purchase up to 21,250,000 shares of its common stock under the 2009 plan, with exercise prices ranging from $0.10 to $0.11 per share. These stock options vest 33.33% on May 20, 2010, 33.33% on May 20, 2011 and 33.33% on May 20, 2012. Of these stock options, (a) 5,000,000 have an exercise price of $0.11 per share and a five-year term, and are valued at $213,687 using the Black-Scholes option pricing model and (b) 16,250,000 have an exercise price of $0.10 per share and a ten-year term, and are valued at $936,633 using the Black-Scholes option pricing model.

As of September 30, 2009, stock options to purchase up to 29,686,000 shares of common stock have been awarded under the 2009 Plan, with exercise prices ranging from $0.04 to $0.11 per share, of which 4,718,000 are exercisable. The aggregate stock compensation expense associated with the aforementioned stock options totaled approximately $1,308,307, of which $1,182,666 remains unamortized as of September 30, 2009; such amount is being amortized on a straight-line basis over three years.

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

	Shares		Weighted Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (yrs)		Aggregate Intrinsic Value
Options outstanding at January 1, 2009	—					
Assumed in exchange	689,500	$	0.14	2.25		-
Granted	29,686,000	$	0.08	5.82		-
Expired	-		-	-		-
Canceled	(125,000)		-	-		-
Exercised	(154,322)	$	0.07	-		-
Options outstanding at September 30, 2009	30,096,178		0.09	5.81	$	1,475,041