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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 333-184487

CONVERSION LABS, INC.
(Exact name of registrant as specified in its charter)

IMMUDYNE, INC.
(Former name of registrant as specified in its charter)

Delaware	**76-0238453**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1460 Broadway New York, NY	**10036**
(Address of principal executive offices)	(Zip Code)

(866) 351-5907
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 last 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
(do not check if a smaller reporting company)		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

44,357,255 shares of common stock outstanding as of August 17, 2018.

Conversion Labs, Inc.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") regarding our company that include, but are not limited to, projections of earnings, revenue or other financial items; statements of the plans, strategies and objectives of management for future operations; statements concerning proposed new products, services or developments; statements regarding future economic conditions or performance; statements of belief; and statements of assumptions underlying any of the foregoing. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "predicts," "potential," "believes," "seeks," "hopes," "estimates," "should," "may," "will," "with a view to" and variations of these words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are set forth in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Our Business" and other sections in this report. Other sections of this report include additional factors that could adversely impact our business and financial performance.

Unless otherwise indicated, information in this report concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Except where otherwise noted, our estimates are derived from publicly available information released by third party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. Unless otherwise indicated, none of the independent industry publication market data cited in this report was prepared on our or our affiliates' behalf.

The forward-looking statements made in this report are based only on events or information as of the date on which the statements are made in this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report and the documents we refer to in this report and have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect.

Additional information on the various risks and uncertainties potentially affecting our operating results are discussed in this report and other documents we file with the Securities and Exchange Commission (the "SEC"). We undertake no obligation to revise or update publicly any forward-looking statements for any reason, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements.

As used in this report, "Conversion Labs," "Company," "we," "our" and similar terms refer to Conversion Labs Inc. and its subsidiaries, unless the context indicates otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Conversion Labs, Inc.

Consolidated Balance Sheets

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash	$ 691,169	$ 141,379
Trade accounts receivable, net	64,045	128,190
Other receivables	-	-
Product deposit	84,000	16,500
Inventory, net	507,211	681,258
Other current assets	124,942	-
Assets held for sale	-	296,483
Total Current Assets	$ 1,471,367	$ 1,263,810
Non-current assets		
Intangible assets, net	$ 366,549	$ -
Total non-current assets	366,549	-
Total Assets	$ 1,837,916	$ 1,263,810
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	$ 446,384	$ 391,759
Notes payable	-	167,479
Convertible notes payable, net	63,098	-
Deferred revenue	1,987	-
Liabilities held for sale	-	81,733
Total Current Liabilities	511,469	640,971
Stockholders' Equity (Deficit)		
Common stock, $0.01 par value; 100,000,000 shares authorized, 43,943,063 and 44,493,063 shares issued, 43,427,863 and 43,977,863 outstanding as of June 30, 2018 and December 31, 2017, respectively	439,430	444,930
Additional paid-in capital	11,920,124	11,500,537
Accumulated (deficit)	(10,879,598)	(10,899,843)
	1,479,956	1,045,624
Treasury stock, 515,200 and 515,200 shares, at cost	(163,701)	(163,701)
Total Conversion Labs, Inc. Stockholders' (Deficit)	1,316,255	881,923
Non-controlling interest	10,192	(259,084)
Total Stockholders' (Deficit)	1,326,447	622,839
Total Liabilities and Stockholders' (Deficit)	$ 1,837,916	$ 1,263,810

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

Conversion Labs, Inc.

Consolidated Statements of Operations
(unaudited)

	Three Months Ended June,		Six Months Ended June,	
	2018	**2017**	**2018**	**2017**
Net Sales	$ 2,037,636	$ 660,087	$ 3,644,127	$ 827,986
Cost of Sales	534,727	185,098	890,180	273,271
Gross Profit	1,502,909	474,989	2,753,947	554,715
Operating expenses				
Compensation and related expenses	322,319	125,417	465,965	389,303
Professional fees	310,043	121,690	442,158	220,534
Marketing expenses	1,271,021	289,070	2,168,185	299,870
General and administrative expenses	197,019	319,114	554,446	427,103
Total operating expenses	2,100,402	855,291	3,630,754	1,336,810
Operating Loss	(597,493)	(380,302)	(876,807)	(782,095)
Change in fair value of derivative liability	-	922,022	-	873,830
Interest (expense)	(51,078)	(250)	(57,528)	(649,607)
Income (Loss) from continuing operations	(648,571)	541,470	(934,335)	(557,872)
Income from discontinued operations, including gain on sale, net of income taxes	-	154,825	925,738	181,632
Net income (loss)	(648,571)	696,295	(8,597)	(376,240)
Net income (loss) attributable to noncontrolling interests	(41,539)	(41,194)	(28,842)	(68,924)
Net income (loss) attributable to Conversion Labs, Inc.	$ (607,032)	$ 737,489	$ 20,245	$ (307,316)
Basic income (loss) per share attributable to Conversion Labs, Inc. from continuing operation	$ (0.01)	$ 0.02	$ (0.02)	$ (0.01)
Basic income per share attributable to Conversion Labs, Inc. from discontinued operation	-	0.00	0.02	0.00
Diluted income (loss) per share attributable to Conversion Labs, Inc. from continuing operation	(0.01)	0.02	(0.02)	(0.01)
Diluted income per share attributable to Conversion Labs, Inc. from discontinued operation	$ -	$ 0.00	$ 0.02	$ 0.00
Average number of common shares outstanding				
Basic	43,168,338	40,849,638	43,338,091	39,224,839
Diluted	45,289,027	47,254,218	45,458,780	39,224,839

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

Conversion Labs, Inc.

Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (Loss)	$ (8,597)	(376,240)
Adjustments to reconcile net (loss) to net cash (used) by operating activities		
Change in fair value of derivative liability	-	(873,830)
Amortization of debt discount	46,789	81,558
Amortization and depreciation	10,473	-
Bad debt recovery	-	(44,543)
(Gain) loss on discontinued operations and disposal	(775,738)	(181,632)
Loss on settlement of notes and other payables	-	634,325
Stock compensation expense	340,395	113,522
Issuance of warrants for services	-	160,833
Changes in Assets and Liabilities		
Trade accounts receivable	64,145	177,800
Other receivables	-	-
Product deposit	(67,500)	(74,043)
Inventory	174,047	1,627
Other current assets	(124,942)	-
Deferred revenue	1,727	-
Accounts payable and accrued expenses	(29,463)	(120,087)
Net cash (used) by operating activities of continuing operations	(368,664)	(500,710)
Net cash used in operating activities of discontinued operations	140,488	(11,859)
Net cash (used in) provided by operating activities	(228,176)	(512,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of subsidiary, net of cash received	(148,555)	-
Proceeds from sale of legacy business	390,000	-
Net cash provided by (used in) investing activities	241,445	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in subsidiary by noncontrolling interest, net	154,000	63,378
Proceeds from notes payable	-	309,042
Proceeds from convertible note payable	550,000	-
Repayment of convertible note payable	-	(100,000)
Repayment of notes payable	(167,479)	(176,420)
Proceeds from options exercise	-	-
Sale of common stock and warrants	-	673,245
Purchase of treasury stock	-	(3,151)
Net cash provided by financing activities	$ 536,521	766,094
Net increase in cash	549,790	253,525
Cash at beginning of the period	141,379	182,561
Cash at end of the period	$ 691,169	$ 436,086
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the period for interest	$ 4,383	$ -
Issuance of company stock for notes and other payables	$ -	$ 242,192
Retirement of stock	$ 460,000	$ -
Stock repurchase from shareholder		

	$ 460,000	$ -
Conversion of liability as consideration on sale of legacy business	$ 150,000	-
Conversion of equity invested in subsidiary to common stock and warrants	$ -	$ 272,203
Reclassification of options, warrants and other contracts to derivative liabilities upon issuance	$ -	$ 1,636,590

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

Conversion Labs, Inc.

Notes to Consolidated Financial Statements
June 30, 2018
(unaudited)

1. Organization

Conversions Labs, Inc. (“Conversion Labs”, “we”, “us”, “our”, the “Company”) is an internet based direct response marketing company that in-licenses, acquires or creates innovative and proprietary products that can be sold to consumers around the world via our technology infrastructure and relationships with agencies, third party marketers, and online advertising platforms such as Facebook and Google. We currently have three commercial stage products and intend to launch an additional two products in 2018. Our leading product, launched in the second quarter of 2017, is a patented shampoo, conditioner, and leave-in foamer for thicker, fuller hair. Our second product, launched in the first quarter of 2018, is a nutritional supplement for immune support. Our third product, launched in the second quarter of 2018, is a PDF conversion software, which was acquired through the purchase of 51% of the membership interests of LegalSimpli Software, LLC, a Puerto Rico limited liability company, which operates a marketing-driven software solutions business.

In 2015, the Company formed a joint venture domiciled in Puerto Rico, Innate Skincare, LLC (“Innate”). Under the terms of the joint venture agreement, the Company held a 33.3% equity interest, and a 51% controlling voting interest, in Innate. On January 20, 2016, Innate amended its limited liability company operating agreement and changed its legal name to Immudyne PR LLC (“Immudyne PR”). On April 1, 2016, Immudyne PR further amended its operating agreement and restated the Company’s ownership and voting interest in Immudyne PR increasing its ownership to 78.1667% resulting in a charge to noncontrolling interest and additional paid-in-capital of $91,612. Immudyne PR was formed to launch a complete skin care regime formulated using strategic ingredients provided by the Company. In the second quarter of 2017, Immudyne PR expanded their product line and launched their in-licensed patented hair loss shampoo and conditioner.

Throughout 2017, we manufactured, distributed and sold natural immune support products containing our proprietary yeast beta glucans, a group of beta glucans naturally occurring in the cell walls of yeast that have been shown through testing and analysis to support the immune system. Beta glucans, or β-Glucans, are a natural extract that are considered to be “biological response modifiers” that support the immune system. The most common sources of beta glucans are from the cell walls of baker’s yeast, the cellulose in plants, the bran of cereal grains and certain fungi and bacteria.

In 2017, our yeast beta glucan nutraceutical and cosmetic product lines consisted of our natural, premium yeast beta glucans in oral and topical applications. We offered our yeast beta glucans as natural raw material ingredients in bulk quantities, our “Nutraceutical and Cosmetic Additives” segment, and finished, consumer products packaged under our brands as well as private label brands, our “Finished Cosmetic Products” segment, which were marketed directly to consumers.

In the first quarter of 2018 we sold assets and certain liabilities related to our legacy business that manufactured raw yeast beta glucan. As a result of this divestiture, we solely operate our online direct marketing business owned by Immudyne PR.

Membership Interest Purchase Agreement

On May 29, 2018 (the “Closing Date”), Immudyne, PR entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) by and among nine individuals, as sellers and Immudyne PR, as buyer (“Buyer”), pursuant to which Buyer acquired from Sellers all of Sellers’ right, title and interest in and to 51% of the membership interests (the “Membership Interests”) of LegalSimpli Software, LLC, a Puerto Rico limited liability company (“LSS”), which operates a marketing-driven software solutions business.

1. Organization (continued)

Membership Interest Purchase Agreement (continued)

In consideration for Buyer's purchase of the Membership Interests the Buyer paid $150,000 (the "Initial Payment") to the Sellers upon execution of the Purchase Agreement. Additionally, Buyer may be obligated to pay up to an additional $200,000 in accordance with the following milestones (the "Milestones"): (i) $100,000 to the Sellers on the 90-day anniversary of the Purchase Agreement, so long LSS's gross revenue for the preceding 30-day period is equal to or greater than $75,000; and (ii) $100,000 to the Sellers on the 180-day anniversary of the Purchase Agreement, so long as LSS's gross revenue for the preceding 30-day period is equal to or greater than $150,000, with a minimum net profit margin of 25% in each instance.

Regardless of whether LSS achieves either or both of the Milestones, Buyer will retain full ownership of the Membership Interests.

Name Change and Symbol Change

Effective June 22, 2018 the Company changed its name from Immudyne, Inc. to Conversion Labs, Inc. All references to the "Company" in this Report refers to Conversion Labs, Inc., unless stated otherwise. Further, in connection with changing its name, the Company changed its trading symbol to CVLB. In connection with the name change, Immudyne PR did not finalize its name change, but the Company expects to complete the name change of Immudyne PR in 2018.

Going Concern

The Company has funded operations in the past through the sales of its products, issuance of common stock and through loans and advances from officers and directors. The Company's continued operations are dependent upon obtaining an increase in its sales volume and the continued financial support from officers and directors or the issuance of additional shares of common stock.

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. At June 30, 2018, the Company had an accumulated deficit approximating $10.9 million and has incurred negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Based on the Company's cash balance at June 30, 2018, and projected cash needs for 2018, management estimates that it will need to increase sales revenue and/or raise additional capital to cover operating and capital requirements for the 2018 fiscal year. Management will need to raise the additional needed funds through increased sales volume, issuing additional shares of common stock or other equity securities, or obtaining debt financing. Although management has been successful to date in raising necessary funding, there can be no assurance that sales revenue will substantially increase or that any required future financing can be successfully completed on a timely basis, or on terms acceptable to the Company.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company evaluates the need to consolidate affiliates based on standards set forth in ASC 810 Consolidation ("ASC 810").

The consolidated financial statements include the accounts of the Company and its majority owned subsidiary, Immudyne PR, its 51% owned LSS and variable interest entities (VIE's) in which the Company has been determined to be the primary beneficiary. The non-controlling interest in Immudyne PR represents the 21.833% equity interest held by other members of the joint venture. All significant consolidated transactions and balances have been eliminated in consolidation.

Management's Representation of Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements include all of the adjustments, which in the opinion of management are necessary to a fair presentation of financial position and results of operations. All such adjustments are of a normal and recurring nature. Interim results are not necessarily indicative of results for a full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements at December 31, 2017 and 2016 filed with the Company's Form 10-K on April 2, 2018 with the SEC.

Variable Interest Entities

The Company follows ASC 810-10-15 guidance with respect to accounting for variable interest entities (each, a "VIE"). These entities do not have sufficient equity at risk to finance their activities without additional subordinated financial support from other parties or whose equity investors lack any of the characteristics of a controlling financial interest. A variable interest is an investment or other interest that will absorb portions of a VIE's expected losses or receive portions of its expected residual returns and are contractual, ownership, or pecuniary in nature and that change with changes in the fair value of the entity's net assets. A reporting entity is the primary beneficiary of a VIE and must consolidate it when that party has a variable interest, or combination of variable interests, that provides it with a controlling financial interest. A party is deemed to have a controlling financial interest if it meets both of the power and losses/benefits criteria. The power criterion is the ability to direct the activities of the VIE that most significantly impact its economic performance. The losses/benefits criterion is the obligation to absorb losses from, or right to receive benefits from, the VIE that could potentially be significant to the VIE. The VIE model requires an ongoing reconsideration of whether a reporting entity is the primary beneficiary of a VIE due to changes in facts and circumstances.

By our fiscal year ending December 31, 2017, we ceased processing credit card charges through all VIE merchant accounts. At June 30, 2018 and December 31, 2017, we recorded the merchant reserves from these VIE merchant accounts on our balance sheet as accounts receivable.

Immudyne PR is the primary beneficiary of Innerwell Skincare LLC, Spurs 5, LLC, and Salus LLC, which are qualified as VIEs. The assets and liabilities and revenues and expenses of these VIEs included in the financial statements of Immudyne PR and further included in the consolidated financial statements. The assets and liabilities include balances due from and due to the subsidiaries of Immudyne PR. These inter-company receivables and payables are eliminated upon consolidation of the VIE with Immudyne PR and the Company. No assets were pledged or given as collateral against any borrowings.

2. Summary of Significant Accounting Policies (continued)

Variable Interest Entities (continued)

The Company utilizes third party entities to provide and increase credit card processing capacity and optimize corresponding rates and fees. A majority of these entities provide this service as independent contractors in exchange for a one (1%) percent fee of the net revenues processed and collected by such contractors from sales initiated by the Company. The VIEs consolidated in the Company's financial statements are primarily contracted to credit card processing through one or more merchant banks contracted by each VIE. Upon receipt of funds by each VIE, the collection of receipts less any returns, chargeback and other fees charged by such merchant bank is transferred to Immudyne PR.

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates required to be made by management include the determination of reserves for accounts receivable, returns and allowances, the accounting for derivatives, the valuation of inventory and stockholders' equity based transactions. Actual results could differ from those estimates.

Derivative Liabilities

Under ASC 815-40-05, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, in the event the Company does not have a sufficient number of authorized and unissued shares of common stock to satisfy obligations for stock options, warrants and other instruments potentially convertible into common stock, the fair value of these instruments should be reported as a derivative liability. Pursuant to the outstanding option, warrant and convertible debt agreements, there is currently no effective registration statement covering the shares of common stock underlying these agreements, which are currently subject to a cashless exercise whereby the holders, at their option, may surrender their options and warrants to the company in exchange for shares of common stock. The number of shares of common stock into which an option or a warrant would be exchangeable in such a cashless exercise depends on both the exercise price of the options or warrant and the market price of the common stock, each at or near the time of exercise. Because the market price is variable, it is possible that the Company could have insufficient authorized shares to satisfy a cashless exercise. In this scenario, if the Company were unable to obtain shareholder approval to increase the number of authorized shares, the Company could be obligated to settle such a cashless exercise with cash rather than by issuing shares of common stock. Further, ASC 815-40-05 requires that the Company record the potential settlement obligation at each reporting date using the current estimated fair value of these contracts, with any changes in fair value being recorded through our statement of operations. The Company had reported the potential settlement obligation as a derivative liability. In the third quarter of 2017, the Company obtained a majority of shareholders' approval and amended its Articles of Incorporation to increase the number of shares of its authorized common stock, therefore the derivative liability is no longer applicable.

Sequencing Policy

Under ASC 815-40-35, the Company has adopted a sequencing policy whereby, in the event that reclassification of contracts from equity to assets or liabilities is necessary pursuant to ASC 815 due to the Company's inability to demonstrate it has sufficient authorized shares, shares will be allocated on the basis of the earliest issuance date of potentially dilutive instruments, with the earliest grants receiving the first allocation of authorized but unissued shares, and all future instruments being classified as a derivative liability, with the exception of instruments related to share-based compensation issued to employees or directors.

Inventory

At June 30, 2018 and December 31, 2017, inventory consisted primarily of finished cosmetic products. Inventory is maintained in a third-party warehouse in Pennsylvania.

Inventory is valued at the lower of cost or net realizable value with cost determined on a first-in, first-out ("FIFO") basis. Management compares the cost of inventory with the net realizable value and an allowance is made for writing down inventory to net realizable, if lower. At June 30, 2018 and December 31, 2017, the Company recorded an inventory reserve in the amount of $12,500 and $12,500, respectively. As of June 30, 2018 and December 31, 2017, the inventory balances were $507,211 and 681,258, respectively.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company records revenue under the adoption of ASC 606 by analyzing exchanges with its customers using a five-step analysis such as identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company's policy is to record revenue as earned when a firm commitment, indicating sales quantity and price exists, delivery has taken place and collectability is reasonably assured. The Company generally records sales of finished cosmetic products once the customer places the order and the product is simultaneously shipped, but in limited cases if title does not pass until the product reaches the customer's delivery site, then recognition of revenue should be deferred until that time, however the Company does not have a process to properly record the recognition of revenue if orders are not immediately shipped. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Provisions for discounts, returns, allowances, customer rebates and other adjustments are netted with gross sales. The Company accounts for such provisions during the same period in which the related revenues are earned. Customer discounts, returns and rebates for the three and six months ended June 30, 2018, was $131,752 and $219,752, respectively. Customer discounts, returns and rebates for the three and six months ended June 30, 2017, was approximately and $12,000 and $50,000, respectively.

There are no formal sales incentives offered to any of the Company's customers. Volume discounts may be offered from time to time to customers purchasing large quantities on a per transaction basis.

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for holdbacks and doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions and sets up an allowance for doubtful accounts when collection is uncertain. Customers' accounts are written off when all attempts to collect have been exhausted. Recoveries of accounts receivable previously written off are recorded as income when received. At June 30, 2018 and December 31, 2017, the accounts receivable reserve was approximately $0 and $0, respectively. At June 30, 2018 and December 31, 2017, the reserve for sales returns and allowances was approximately $43,805 and $23,200, respectively.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company files Corporate Federal and State tax returns, while Immudyne PR and LSS, which were formed as limited liability companies, file separate tax returns with any tax liabilities or benefits passing through to its members.

The Company records current and deferred taxes in accordance with Accounting Standards Codification (ASC) 740, "Accounting for Income Taxes." This ASC requires recognition of deferred tax assets and liabilities for temporary differences between tax basis of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. The Company periodically assesses the value of its deferred tax asset, a majority of which has been generated by a history of net operating losses and determines the necessity for a valuation allowance. ASC 740 also provides a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. Using this guidance, a company may recognize the tax benefit from an uncertain tax position in its financial statements only if it is more likely-than-not (i.e., a likelihood of more than 50%) that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The Company's tax returns for all years since December 31, 2014, remain open to taxing authorities.

Stock-Based Compensation

The Company follows the provisions of ASC 718, "Share-Based Payment". Under this guidance compensation cost generally is recognized at fair value on the date of the grant and amortized over the respective vesting periods. The fair value of options at the date of grant is estimated using the Black-Scholes option pricing model. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of the Company's shares using weekly price observations over an observation period that approximates the expected life of the options. The risk-free rate approximates the U.S. Treasury yield curve rate in effect at the time of grant for periods similar to the expected option life. Due to limited history of forfeitures, the estimated forfeiture rate included in the option valuation was zero.

Many of the assumptions require significant judgment and any changes could have a material impact in the determination of stock-based compensation expense.

2. Summary of Significant Accounting Policies (continued)

Earnings (Loss) Per Share

Basic earnings (loss) per common share is based on the weighted average number of shares outstanding during each period presented. Warrants and options to purchase common stock are included as common stock equivalents only when dilutive. Potential common stock equivalents are excluded from dilutive earnings per share when the effects would be antidilutive.

Common stock equivalents comprising shares underlying 8,210,800 and 6,090,111 options and warrants for the three and six months ended June 30, 2018, respectively, have not been included in the income per share calculations as the effects are anti-dilutive.

Common stock equivalents comprising shares underlying 5,145,693 and 11,550,273 options and warrants for the three and six months ended June 30, 2017, respectively, have not been included in the loss per share calculation as the effects are anti-dilutive.

Recent Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017 but early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in practice regarding how certain cash receipts and cash payments are presented in the statement of cash flows. The standard provides guidance on the classification of the following items: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows. The Company is required to adopt ASU 2016-15 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. We have reviewed ASU 2016-15 and have determined that it will not have any material effect on our financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. We have reviewed ASC 842 and have determined that it will not have any material effect on our financial statements and related disclosures.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard ("ASC 606") provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The two permitted transition methods under the new standard are the full retrospective method or the modified retrospective method. The new standard is effective for annual reporting periods beginning after December 15, 2017, and accordingly we are required to adopt this standard effective January 1, 2018, the beginning of our fiscal year. We have reviewed ASC 606 and have determined that it will not have any material effect on our revenue recognition.

All other accounting standards that have been issued or proposed by the FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash, trade accounts receivable, accounts payable and accrued expenses and the face amount of notes payable approximate fair value for all periods.

Noncontrolling Interests

The Company accounts for its less than 100% interests in Immudyne PR and LSS in accordance with ASC Topic 810, Consolidation, and accordingly the Company presents noncontrolling interests as a component of equity on its consolidated balance sheet and reports the noncontrolling interest's share of the Immudyne PR, and LSS's net loss attributable to noncontrolling interests in the consolidated statement of operations.

Consolidation of Variable Interest Entities

In accordance with ASC 810-10-25-37 and as amended by ASU 2009-17, the Company determines whether any legal entity in which the Company becomes involved is a VIE and subject to consolidation. The Company conducts an assessment on an ongoing basis for each VIE including (1) the power to direct activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. As a result, the Company determined that six entities were VIEs and subject to consolidation.

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Company grants credit in the normal course of business to its customers. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk.

The Company monitors its positions with, and the credit quality of, the financial institutions with which it invests. The Company, at times, maintains balances in various operating accounts in excess of federally insured limits.

Although the Company does have some wholesale customers, over 90% of the Company's sales are to unique customers. Since the Company sells its products to thousands of customers, there is no accounts receivable concentration from customers. However, the Company uses merchant processors to charge customer credit cards and does contain concentration risk between credit card processors.

As of June 30, 2018, the Company's accounts receivable had no significant concentration from any customer.

As of June 30, 2018, three credit card processors accounted for 81%, 12% and 5% of accounts receivable.

3. Discontinued Operations and Assets and Liabilities Held for Sale

On January 29, 2018, the Company entered into a Legacy Asset Sale Agreement with Mark McLaughlin (the Company's former President and CEO) whereby the Company sold the net assets of the legacy beta glucan business for $850,000. On February 7, 2018, the Company and Mr. McLaughlin entered into an amendment to the asset purchase agreement to amend the purchase price of the assets, whereby Mr. McLaughlin agreed, through a newly formed entity, to purchase the assets and liabilities of the yeast beta glucan manufacturing business, for the following: (i) 2,000,000 shares of the Company's common stock (valued at $0.23 per share or $460,000), payable on February 12, 2018, (the "Closing Date"), (ii) $190,000 payable on the Closing Date, (iii) $200,000 payable within 120 days following the Closing Date, and (iv) the waiver of all rights to any severance payment in the amount of $150,000. The total purchase price per the amended asset sale agreement was $1,000,000. The total net assets and liabilities transferred in the sale was $255,248, resulting in a gain on sale of $744,752.

Operating results for the three months and six months ended June 30, 2018, and 2017 for the yeast beta glucan manufacturing business are presented as discontinued operations and the assets and liabilities classified as held for sale are presented separately in the balance sheet.

A breakdown of the discontinued operations is presented as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net Sales	$ -	$ 447,331	$ 363,613	$ 703,894
Cost of Sales	-	144,148	56,666	259,331
Gross Profit	-	303,183	306,947	444,563
Operating expenses	-	148,358	125,960	262,931
Income from discontinued operations	-	154,825	180,987	181,632
Gain on sale	-	-	744,752	-
Net income from discontinued operations	$ -	$ 154,825	$ 925,739	$ 181,632

Assets and liabilities of discontinued operations held for sale included the following:

	June 30, 2018	December 31, 2017
Current assets:		

Trade accounts receivable, net	$ -	$ 270,580
Inventory, net	-	25,903
	$ -	$ 296,483
Current liabilities:		
Accounts payable and accrued expenses	$ -	$ 81,733
	$ -	$ 81,733

4. Business Combination

Acquisition of Membership Interest Purchase Agreement

On May 29, 2018 (the "Closing Date"), Immudyne, PR entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") by and among nine individuals, as sellers and Immudyne PR, as buyer ("Buyer"), pursuant to which Buyer acquired from Sellers all of Sellers' right, title and interest in and to 51% of the membership interests (the "Membership Interests") of LegalSimpli Software, LLC, a Puerto Rico limited liability company ("LSS"), which operates a marketing-driven software solutions business.

In consideration for Buyer's purchase of the Membership Interests the Buyer paid $150,000 (the "Initial Payment") to the Sellers upon execution of the Purchase Agreement. Additionally, Buyer may be obligated to pay up to an additional $200,000 in accordance with the following milestones (the "Milestones"): (i) $100,000 to the Sellers on the 90-day anniversary of the Purchase Agreement, so long LSS's gross revenue for the preceding 30-day period is equal to or greater than $75,000; and (ii) $100,000 to the Sellers on the 180-day anniversary of the Purchase Agreement, so long as LSS's gross revenue for the preceding 30-day period is equal to or greater than $150,000, with a minimum net profit margin of 25% in each instance.

Regardless of whether LSS achieves either or both of the Milestones, Buyer will retain full ownership of the Membership Interests.

Fair Value of Consideration Transferred and Recording of Assets Acquired

The following table summarizes the acquisition date fair value of the consideration paid, identifiable assets acquired, and liabilities assumed including an amount for intangible assets:

Consideration Paid:		
Cash and cash equivalents	$	150,000
Fair value of total consideration	$	150,000
Recognized amount of identifiable assets acquired, and liabilities assumed:		
Financial assets:		
Cash and cash equivalents	$	1,445
Financial liabilities:		
Accounts payable and accrued liabilities		(84,349)
Non-controlling interest		(144,118)
Total identifiable net assets		(227,022)
Intangible assets		377,022
	$	150,000

5. Notes Payable

In the third quarter of 2016 the Company commenced an offering pursuant to which it offered 11% subordinated promissory notes in fifty thousand ($50,000) dollar increments combined with 62,500 shares of the Company's Common Stock for a maximum offering amount of $200,000 (the "Offering"). In August and September 2016, the Company sold promissory notes totaling $150,000 to three unrelated individuals. Two of the promissory notes totaling $100,000 were payable in February 2017 and one promissory note for $50,000 was payable in March 2017. In October 2016, the Company sold promissory notes totaling $50,000 to two unrelated individuals. These promissory notes were payable in October 2017. In connection with these promissory notes sold, pursuant to the Offering, the Company issued 250,000 shares of common stock valued at $58,750 which was recorded as a debt discount and were amortized over the term of these notes. Amortization of the debt discounts for the year ended December 31, 2017 and 2016 was $25,035 and $33,715, respectively. During 2016, the Company repaid $68,600 of the principal balance; and as a result, the outstanding balances of these notes as of December 31, 2016, were $131,400. The balance of debt discount related to the subordinated promissory notes is $25,035 at December 31, 2016. During 2017, the Company repaid $81,420 of the principal balance and converted the remaining balance of $49,980 into 196,000 shares of common stock and 98,000 warrants, which satisfied the notes in full. The fair market value of the shares and warrants issued upon conversion was determined to be $179,384, of which $129,404 was included in loss on extinguishment of debt. Interest expense related to these notes for the six months ended June 30, 2018 and 2017, amounted to $0 and $131,117, respectively.

In December 2016, the Company borrowed $100,000 from an officer and issued a convertible promissory note with a maturity date of February 28, 2017. The loan bore no interest. This note was convertible if not repaid by the maturity date at a conversion price of $0.23 per Unit. Each Unit shall consist of one share of the Company's common stock and one three-year common-stock warrant to purchase one-half of one share of the Company's common stock with an exercise price of $0.40 per share. In March 2017, the Company repaid the entire outstanding balance of this note.

In January 2017, the Company borrowed $200,000 and issued a promissory note with a 5% original issue discount for a total principal amount of $210,000. The loan incurred 11% interest per annum and matured in various tranches from February 2017 through April 2017. In addition, the Company issued 217,391 shares of common stock related to this note. In February 2017, the Company repaid $70,000 of the principal balance of this note. In March 2017, the Company converted the remaining $140,000 of the principal balance of this note and accrued interest of $2,212 in exchange for 559,179 shares of common stock and 304,348 warrants which satisfied the note in full. The fair market value of the shares and warrants issued upon conversion was determined to be $566,030, of which $423,818 was included in loss on extinguishment of debt.

In February 2017, the Company borrowed $25,000 from an American Express working capital line with 60 days maturity. The interest for this loan is a flat fee of $250. On April 17, 2017, the Company repaid this loan. In June 2017, the Company borrowed $74,043 from an American Express working capital line with 90 days maturity. The interest for this loan is a flat fee of $1,111. On August 30, 2017, the Company repaid this loan. In September 2017, the Company borrowed $77,333 from an American Express working capital line with 90 days maturity. The interest for this loan is a flat fee of $1,160. In November 2017, $42,479 was drawn from the line of credit and $78,493 was paid back in December 2017. In the first quarter of 2018 the Company repaid this loan. As of June 30, 2018 and December 31, 2017, there was $0 and $42,479 outstanding, respectively.

In December 2017, Immudyne PR received two working capital loans from related parties for $50,000 and $75,000 respectively. The loans accrue at 2% interest per month and mature in February 2018. In February 2018, the Company repaid these loans with all outstanding accrued interest.

In May 2018, the Company borrowed $550,000 and issued convertible notes payable with a maturity date of May 28, 2019. These notes accrue interest at a rate of 12% compounded annually. The conversion price for these notes is $0.23 per share of common stock, subject to adjustment. In the event the average VWAP (as defined) for the consecutive five trading days preceding but not including the six month anniversary of the original issue date of the note is less than the then conversion price in effect on such six month anniversary date, then the conversion price shall be reduced to 80% of the VWAP for the ten trading days following (but not including) such six month anniversary date, subject to further reduction. In addition, the Company issued warrants to purchase up to 2,391,305 shares of common stock at a price of $0.28 per share. The fair value of the warrants were determined to be $533,691 and were recorded as a debt discount to be amortized over the life of the note. For the six months ended June 30, 2018, amortization of debt discount was $46,789.

Interest expense related to loans from officers, directors and other related individuals amounted to $4,383 and $1,713 for the six months ended June 30, 2018 and 2017, respectively.

Interest expense related to loans from officers, directors and other related individuals amounted to $0 and $250 for the three months ended June 30, 2018 and 2017, respectively.

Total interest expense on notes payable, inclusive of amortization of debt discount of $46,789 and $81,558, amounted to $57,528 and $649,607 for the six months ended June 30, 2018 and 2017, respectively.

Total interest expense on notes payable, inclusive of amortization of debt discount of $46,789 and $0, amounted to $51,078 and $250 for the three months ended June 30, 2018 and 2017, respectively.

6. Income Taxes

At June 30, 2018, the Company has approximately $3,193,000 of operating loss carryforwards for federal that may be applied against future taxable income. The net operating loss carryforwards will begin to expire in the year 2021 if not utilized prior to that date, expiring during various years through 2037. There is no provision for income taxes because the Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 34% to 21%. The most significant impact of the legislation for the Company was a $242,000 reduction of the value of net deferred tax assets (which represent future tax benefits) as a result of lowering the U.S. corporate income tax rate from statutory rate of 34% to 21%.

The valuation allowance overall decreased by approximately $81,000 during the six months ended June 30, 2018. The Company has fully reserved the deferred tax asset resulting from available net operating loss carryforwards.

The tax effect of temporary differences that gave rise to significant portion of the deferred tax assets were as follows:

Net operating loss	$ 817,000
Accounts receivable reserves	-
Inventory reserves	-
Stock compensation	340,000
Net deferred tax asset	1,157,000
Valuation allowance	(1,157,000)
Total	$ -

The net operating loss carryforwards could be subject to limitation in any given year in the event of a change in ownership as defined by IRC Section 382.

7. Stockholders' Equity

Common Stock

In January 2017, the Company issued 1,183,490 shares of common stock pursuant to a conversion of Immudyne PR equity contributions of $272,203 into equity of the Company by the noncontrolling interest.

In January 2017, the Company issued 217,391 shares of common stock in relation to issuance of a $210,000 note payable.

In the first quarter of 2017, the Company commenced an offering to sell up to 4,000,000 shares of common stock at a price of $0.23 per share and warrants to purchase up to 2,000,000 shares of common stock exercisable any time prior to the second anniversary of the issuance. The warrants are paired with the stock on the basis of one warrant for every two shares of stock purchased. During 2017, the Company received subscriptions in the amount of 2,927,156 shares and issued 1,463,578 warrants and proceeds in the amount of $673,246.

In March 2017, the Company issued 755,179 shares of common stock for the conversion of the outstanding balance of three notes payable totaling $499,802 (see Note 4).

7. Stockholders' Equity (continued)

Common Stock (continued)

On April 24, 2017, the Company, issued 217,390 shares of common stock pursuant to a stock subscription agreement and the Company issued 108,696 warrants with an exercise price of $0.40 per share for the stated consideration and satisfaction of obligation to pay $50,000 on the 180-day anniversary of the execution of the Sole and Exclusive License, Royalty, and Advisory Agreement dated September 1, 2016 with Pilaris Laboratories, LLC.

During the second quarter of 2017 the Company received subscriptions in the amount of 110,000 shares and issued 55,000 warrants and proceeds in the amount of $25,300.

On June 1, 2017, the Company entered into an agreement with a consultant to provide services, with a six-month term, and issued 125,000 shares of common stock as compensation. The shares were valued at $45,000 and the Company is recognizing the expense over the term of the agreement. For the year ending December 31, 2017, $45,000 has been expensed and included in compensation and related expenses on the consolidated statement of operations.

In July 2017, the Company and JLS Ventures entered into a separate three year incentivized second amendment to a Service Agreement effective July 1, 2017. As compensation, the Company issued 900,000 shares of common stock valued at $432,000. The Company is recognizing the expense over the term of the agreement. For the six months ending June 30, 2018 and 2017, $72,000 and $0, respectively, has been expensed and included in compensation and related expenses on the consolidated statement of operations.

In July 2017, Mark McLaughlin, the Company's former President and Chief Executive Officer, exercised 1,500,000 warrants on a cashless basis and was issued 1,140,000 shares of common stock.

In July 2017, Mark McLaughlin exercised 1,000,000 options on a cashless basis and was issued 800,000 shares of common stock.

In July 2017, Mark McLaughlin exercised 339,473 options on a cashless basis and was issued 271,579 shares of common stock.

In August 2017, the Company issued 100,000 shares of common stock valued at $40,000 to Acorn Management Partners L.L.C. ("Acorn") for financial advisory, strategic business planning and other investor relation services. The Company is recognizing the expense over the term of the agreement. For the year ending December 31, 2017, $40,000 has been expensed and included in compensation and related expenses on the consolidated statement of operations.

In August 2017, the Company issued 50,000 shares of common stock valued at $20,000 to BV Global Fulfillment, LLC ("BV Global") for fulfillment services.

In November 2017, the Company issued 100,000 shares of common stock valued at $44,000 to an employee as a bonus.

In November 2017, the Company issued 135,721 shares of common stock pursuant to a conversion of Immudyne PR equity contributions of $31,216 into equity of the Company by the noncontrolling interest.

In February 2018, pursuant to the sale of the Company's legacy yeast beta glucan assets to the Company's former CEO, Mr. McLaughlin, 2,000,000 of Mr. McLaughlin's shares were cancelled.

In March 2018, the Company issued 500,000 shares of common stock valued at $120,000 to a consultant for over a one-year term. In May 2018, the Company amended the agreement with the consultant whereby the Company rescinded the 500,000 shares of common stock and reissued 250,000 shares of common stock. The 250,000 shares of common stock issued on May 14, 2018, were valued at $62,500. The Company is recognizing the expense at the time of issuance.

In May 2018, the Company issued 1,000,000 shares of common stock valued at $230,000 to JLS Ventures, LLC, a company controlled by our CEO, Justin Schreiber, for services with a 24-month term. These 1,000,000 shares serve as the compensation for Mr. Schreiber for his services as CEO of the Company. The Company is recognizing the expense over the term of the agreement. For the six months ending June 30, 2018, $95,833 has been expensed and included in compensation and related expenses on the consolidated statement of operations.

In May 2018, the Company issued 200,000 shares of common stock valued at $56,000 to a consultant for services over a 3-month term. The Company is recognizing the expense at the time of issuance. For the six months ending June 30, 2018, $56,000 has been expensed and included in compensation and related expenses on the consolidated statement of operations.

7. Stockholders' Equity (continued)

Noncontrolling Interest

On April 1, 2016, the Company increased its ownership in Immudyne PR from to 78.16667% decreasing the minority interest from 66.7% to 21.83% resulting in a charge to noncontrolling interest and additional paid-in-capital of $91,612.

In 2016, the net change in loans, contributions and distributions by other members of Immudyne PR resulted an increase in noncontrolling interests of $63,377. In 2017, the net change in loans, contributions and distributions by other members of Immudyne PR resulted an increase in noncontrolling interests of $119,894.

During 2017, the Company issued a total of 1,319,211 shares of common stock and 659,606 warrants pursuant to a conversion of Immudyne PR equity contributions of $303,418 into equity of the Company by the noncontrolling interest.

For the six months ended June 30, 2018 and 2017, the net loss of Immudyne PR attributed the Company amounted to $23,145 and $68,924, respectively.

For the three months ended June 30, 2018 and 2017, the net loss of Immudyne PR attributed the Company amounted to $35,842 and $41,194, respectively.

On May 29, 2018, Immudyne PR acquired a 51% interest in LSS, which operates a marketing-driven software solutions business. For the month of June 2018, the net loss of LSS was $48,613, of which $5,200 was attributed to the Company. During June 2018, contributions by other members of LSS resulted an increase in noncontrolling interests of $154,000

Service-Based Stock Options

In January 2017, the Company issued 100,000 service-based options valued at $24,109 to Brunilda McLaughlin as additional compensation in an employment agreement. These options have an exercise price of $0.40 per shares, are fully vested, and expire in 10 years.

In February 2017, the Company issued 500,000 service-based options valued at $113,522 to a director with an exercise price of $0.20 per share. The options are fully vested and expire in 10 years.

In July 2017, the Company issued 75,000 service-based options valued at $20,985 to Brunilda McLaughlin as additional compensation in an employment agreement. These options have an exercise price of $0.35 per shares, are fully vested, and expire in 10 years.

In July 2017, the Company issued 300,000 service-based options valued at $83,939 to three directors with an exercise price of $0.35 per share. The options are fully vested and expire in 10 years.

In July 2017, the Company issued 125,000 service-based options valued at $49,219 to a consultant with an exercise price of $0.40 per share. The options are fully vested and expire in 5 years.

7. Stockholders' Equity (continued)

Service-Based Stock Options (continued)

In July 2017, the Company issued Mark McLaughlin a ten year option to buy 750,000 shares at $0.35 vesting one-third or 250,000 shares upon signing, and 250,000 shares on July 1, 2018 and 250,000 shares on July 1, 2019. Once the options are fully vested, they expire in 10 years. The options vested at December 31, 2017 are valued at $69,949. In February 2018, Mr. McLaughlin resigned as CEO, therefore no further options will be vested.

On October 1, 2017, Michael Borenstein was appointed to our Board of Directors. As a director, Mr. Borenstein received a ten-year, fully-vested option to purchase 100,000 shares of our common stock at a price of $0.35 per share. In addition, Mr. Borenstein received four ten-year options to each purchase 75,000 shares of our common stock at prices of $0.25, $0.25, $0.35, and $0.35 per share, which vest upon the Company earning $4,000,000, $5,000,000, $6,000,000 and $7,000,000 in earnings before income taxes, respectively.

In October 2017, the Company entered into a consulting agreement with Mr. Kalkstein and issued him a ten-year option to buy 500,000 shares at $0.40 vesting 30% upon signing, 35% shall vest on the two-year anniversary of this Agreement and 35% shall vest on the three year anniversary of this Agreement. Once the options are fully vested, they expire in 10 years. The fair value of the options upon issuance was $199,897 to be recognized as an expense over the three-year term of the agreement. For the six months ended June 30, 2018 and 2017, $33,316 and $0, respectively, has been recognized as expense. For the three months ended June 30, 2018 and 2017, $16,658 and $0, respectively, has been recognized as expense.

Accordingly, stock-based compensation for the six months ended June 30, 2018 and 2017 included $33,316 and $113,522, respectively, related to such service-based stock options.

Accordingly, stock-based compensation for the three months ended June 30, 2018 and 2017 included $16,658 and $-0-, respectively, related to such service-based stock options.

A Summary of the outstanding service-based options are as follows:

	Number of Options
Balance at December 31, 2016	10,700,273
Exercised	(1,339,473)
Issued	1,600,000
Balance at December 31, 2017	10,960,800
Issued	-
Expired	(500,000)
Exercised	-
Balance at June 30, 2018	10,460,800

All outstanding options are exercisable and have a cashless exercise provision, and certain options provide for accelerated vesting provisions and modifications, as defined, if the Company is sold or acquired. The intrinsic value of options outstanding and exercisable at June 30, 2018 and December 31, 2017 amounted to $160,796 and $1,210,342, respectively.

7. Stockholders' Equity (continued)

Service-Based Stock Options (continued)

The significant assumptions used to determine the fair values of options issued, using a Black-Scholes option-pricing model are as follows:

<u>Significant assumptions:</u>	
Risk-free interest rate at grant date	1.49% - 1.98%
Expected stock price volatility	194% - 217%
Expected dividend payout	—
Expected option life-years	3 years
Weighted average grant date fair value	$ 0.23 - 0.41
Forfeiture rate	0%

The following is a summary of outstanding service-based options at June 30, 2018:

Exercise Price	**Number of Options**	**Weighted Average Remaining Contractual Life**
$0.10	40,800	<1 year
$0.20 - $0.25	8,120,000	4 years
$0.35	725,000	9 years
$0.40	1,575,000	5 years
Total	10,460,800	

Performance-Based Stock Options

<u>Vested</u>

In February 2017, the Company granted performance-based options to purchase 250,000 shares of common stock at exercise prices of $0.40. The options expire in 2027 and are exercisable upon the Company achieving annual sales revenue of $5,000,000. The options are valued at $55,439. During 2017, the Company met the performance criteria.

7. Stockholders' Equity (continued)

Unvested

The Company granted performance-based options to purchase 900,000 shares of common stock at exercise price of $0.80. The options expire at various dates between 2021 and 2027 and are exercisable upon the Company achieving annual sales revenue of $10,000,000. During 2017, these unvested options were cancelled.

In July 2017, the Company granted performance-based options to purchase 6,000,000 shares of common stock with an exercise prices of $0.35 per share. The options expire in 10 years and are exercisable upon cash received by the Company from Immudyne PR between $4,000,000 and $7,000,000. The aggregate fair value of these performance-based options is $1,688,212.

In the third quarter of 2017, the Company granted performance-based options to purchase 3,150,000 shares of common stock with an exercise prices of $0.25 and $0.35 per share. The options expire in 10 years and are exercisable upon the company achieving pre-tax earnings benchmarks between $4,000,000 and $7,000,000. The aggregate fair value of these performance-based options is $910,146.

In the fourth quarter of 2017, the Company granted performance-based options to purchase 600,000 shares of common stock with an exercise prices of $0.25 and $0.35 per share. The options expire in 10 years and are exercisable upon the company achieving pre-tax earnings benchmarks between $4,000,000 and $7,000,000. The aggregate fair value of these performance-based options is $242,709.

Warrants

The following is a summary of outstanding and exercisable warrants:

	Number of Shares	Weighted Average Exercise Price	Year of Expiration
Balance at December 31, 2016	1,954,981	0.19	2017 - 2019
Issued	2,634,228	0.40	2018 - 2020
Exercised	(1,500,000)	0.12	2017
Balance at December 31, 2017	3,089,119	0.40	2018 - 2020
Issued	2,491,305	0.29	2023 - 2028
Exercised	-		
Balance at June 30, 2018	5,580,424	0.35	2018 - 2028

In January 2017, the Company issued 591,745 warrants with an exercise price of $0.40 per share, in relation to an issuance of common stock for the conversion of an equity contribution into Immudyne PR by the noncontrolling interest. These warrants are fully vested and expire in two years.

In March 2017, the Company issued 402,348 warrants with an exercise price of $0.40 per share, in relation to an issuance of common stock for the conversion of debt. These warrants are fully vested and expire in two years.

In the first quarter of 2017, the Company issued 1,408,578 warrants with an exercise price of $0.40 per share, in relation to a sale of common stock. These warrants are fully vested and expire in two years.

7. Stockholders' Equity (continued)

Warrants (continued)

In April 2017, the Company issued 55,000 warrants with an exercise price of $0.40 per share, in relation to a sale of common stock. These warrants are fully vested and expire in two years.

In April 2017, the Company issued 108,696 warrants with an exercise price of $0.40 per share, in relation to an issuance of common stock for conversion of a payable. These warrants are fully vested and expire in three years.

In November 2017, the Company issued 67,861 warrants with an exercise price of $0.40 per share, in relation to an issuance of common stock for conversion of an equity contribution into Immudyne PR by the noncontrolling interest. These warrants are fully vested and expire in three years.

In March 2018, the Company issued 100,000 warrants with an exercise price of $0.50 per share, in relation to royalty license agreement. These warrants are fully vested and expire in ten years.

In May 2018, the Company issued 2,391,305 warrants with an exercise price of $0.28 per share, in relation to an issuance of convertible notes payable. These warrants are fully vested and expire in five years.

Warrants outstanding and exercisable amounted to 5,580,424 and 3,089,119 at June 30, 2018 and December 31, 2017, respectively. The weighted average exercise price of warrants outstanding at June 30, 2018 and December 31, 2017 is $0.35 and $0.40, respectively. The warrants expire at various times between September 2018 and March 2028.

The fair value of options and warrants granted (or extended) during the six months ended June 30, 2018 and 2017, was estimated on the date of grant (or extension) using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2018	2017
Expected volatility	191% - 196%	181% - 211%
Risk free interest rate	2.44% - 2.58%	1.03% - 2.22%
Expected dividend yield	-	-
Expected option term (in years)	3 - 5	1.4 - 8.5
Weighted average grant date fair value	$0.21 – 0.22	$0.37 - 0.50

Under ASC 815-40-05, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, in the event the Company does not have a sufficient number of authorized and unissued shares of common stock to satisfy obligations for stock options, warrants and other instruments potentially convertible into common stock, the fair value of these instruments should be reported as a liability. Pursuant to the outstanding option, warrant and convertible debt agreements, there is currently no effective registration statement covering the shares of common stock underlying these agreements, which are currently subject to a cashless exercise whereby the holders, at their option, may surrender their options and warrants to the company in exchange for shares of common stock. The number of shares of common stock into which an option or a warrant would be exchangeable in such a cashless exercise depends on both the exercise price of the options or warrant and the market price of the common stock, each at or near the time of exercise. Because the market price is variable, it is possible that we could have insufficient authorized shares to satisfy a cashless exercise. In this scenario, if we were unable to obtain shareholder approval to increase the number of authorized shares, we could be obligated to settle such a cashless exercise with cash rather than by issuing shares of common stock. Further, ASC 815-40-05 requires that we record the potential settlement obligation at each reporting date using the current estimated fair value of these contracts, with any changes in fair value being recorded through our statement of operations. We reported the potential settlement obligation as a liability until such time as these contracts are exercised or expire or we are otherwise able to modify the agreements to remove the provisions which require this treatment. On September 21, 2017, the Company filed an amendment to its certificate of incorporation with the Delaware Secretary of State increasing the number of authorized shares of the Company's common stock from 50,000,000 to 100,000,000, which enabled the Company to reclassify the derivative liability.

Stock Based Compensation

The total stock-based compensation expense related to Service-Based Stock Options, Performance-Based Stock Options and Warrants issued for service amounted to $340,395 and $274,355 for the six months ended June 30, 2018 and 2017, respectively. Performance-Based Stock Options and Warrants issued for service amounted to $256,082 and $84,166 for the three months ended June 30, 2018 and 2017, respectively. Such amounts are included in compensation and related expenses in the consolidated statement of operations.

8. Royalties

The Company is subject to a royalty agreement based upon sales of certain hair care products. For the six months ended June 30, 2018 and 2017, the Company recognized $38,394 and $12,112, respectively, in royalty expense related to this agreement. As of June 30, 2018 and December 31, 2017, $17,642 and $14,039 was included in accounts payable and accrued expenses in regards to this agreement. In addition, the Company shall pay a performance fee in relation to this agreement. In April 2017, the Company issued 217,390 shares of common stock and 108,696 warrants, pursuant to a subscription agreement, for the stated consideration and satisfaction of obligation to pay $50,000 of the performance fee (see Note 8).

On March 26, 2018, the Company entered into a license agreement (the “Agreement”) with M.ALPHABET, LLC (“Alphabet”), pursuant to which Alphabet agreed to license its PURPUREX business which consists of methods and compositions developed by Licensor for the treatment of purpura, bruising, post-procedural bruising and traumatic bruising (the “Product Line”). Pursuant to the license granted under the Agreement, Immudyne PR obtains an exclusive license to incorporate (i) any intellectual property rights related to the Product Line and (ii) all designs, drawings, formulas, chemical compositions and specifications used or useable in the Product Line into one or more products manufactured, sold, and/or distributed by Alphabet for the treatment of purpura, bruising, post-procedural bruising and traumatic bruising and for all other fields of use or purposes (the “Licensed Product(s)”), and to make, have made, advertise, promote, market, sell, import, export, use, offer to sell and distribute the Licensed Product(s) throughout the world with the exception of China, Hong Kong, Japan, and Australia (the “License”).

The Company shall pay Alphabet a royalty equal to 13% of Gross Receipts (as defined in the Agreement) realized from the sales of Licensed Products. Further, so long as the Agreement is not previously terminated, the Company, also agreed to pay Alphabet $50,000 on the 120-day anniversary of the Agreement and an additional $50,000 on the 360-day anniversary of the Agreement.

Upon execution of the Agreement, Alphabet will be granted a 10-year option to purchase 100,000 shares of the Company’s common stock at an exercise price of $0.50. Further, if Licensed Products have gross receipts of $7,500,000 in any calendar year, the Company will grant Alphabet an option to purchase 100,000 shares of the Company’s common stock at an exercise price of $0.50; (ii) if Licensed Products have gross receipts of $10,000,000 in any calendar year, the Company will grant Alphabet an additional option to purchase 100,000 shares of the Company’s common stock at an exercise price of $0.50 and (iii) If Licensed Products have gross receipts of $20,000,000 in any calendar year, the Company will grant Alphabet an option to purchase 200,000 shares of the Company’s common stock at an exercise price of $0.75.

9. Commitments and Contingencies

Leases

Immudyne PR utilizes office space in Puerto Rico which is subleased from Mr. Schreiber (the Company’s President and CEO) and incurs expense of approximately $4,000 a month for this office space. Rent expense for the six months ended June 30, 2018 and 2017, was $24,000 and $23,000, respectively.

The Company started paying $95 per month to WeWork for a mailing address and the ability to lease conference space on-demand at their locations worldwide. The Company incurred $285 of expenses for the three month period ended June 30, 2018.

In February 2018, the Company entered into a 3-year agreement to lease office space in Huntington Beach, CA beginning on March 2, 2018. The monthly rent is $2,106 for the first twelve months, $2,149 for the second twelve months and $2,235 for the third twelve months. A security deposit of $2,235 was paid for this lease. Rent expense for the six months ended June 30, 2018 and 2017, was $6,130 and $-0-, respectively.

Consulting Agreements

In August 2017, the Company entered into a Professional Service Agreement with Acorn Management Partners L.L.C. (“Acorn”) for financial advisory, strategic business planning and other investor relation services for one year effective August 8, 2017. During the term of the Agreement, Acorn shall receive $7,500 cash monthly. As additional compensation, the Company shall issue within five (5) days of signing 100,000 shares of the Company's common stock and upon each three (3) month period thereafter during the term of the Agreement an additional 100,000 shares of the Company's common stock for a total of 400,000 shares of the Company's common stock.

9. Commitments and Contingencies (continued)

Restricted Stock and Options

The Company has entered into two agreements on April 1, 2016 with two consultants of Immudyne PR for business development, marketing and sales related services (the "Consultant Agreements"). The consultants are treated as employees for accounting purposes. Upon signing, each consultant was issued 1,000,000 restricted shares of the Company's common stock. In addition, each consultant shall receive an additional 150,000 restricted shares of the Company's common stock for each $500,000 distributed by Immudyne PR to the Company. For each consultant, the amount of shares to be issued by the Company to the consultants shall be capped at 1,500,000 restricted shares when Immudyne PR has transferred $5,000,000 to the Company, for a combined capped total of 3,000,000 restricted shares. For the year ended December 31, 2016, 2,300,000 restricted shares of common stock have been issued related to these agreements. The Company valued the shares at their grant date for a value of $0.30 per share for a total of $690,000 to be expensed over the estimated service period.

In addition, the Consulting Agreements provided that each consultant shall receive a bonus of an additional 750,000 restricted shares of the Company's common stock, plus an option to buy 1,000,000 shares of the Company's. common stock at $0.20/share (including a cashless exercise feature) when Immudyne PR has transferred to the Company at each of the following three (3) thresholds: $1,250,000, $2,000,000 and $3,000,000 for a total of 2,250,000 of restricted shares of the Company's common stock and options to purchase up to 3,000,000 shares of the Company's common stock at $0.20/share. As of June 30, 2018 no bonus shares had been issued, and no options have been granted under this agreement.

Sole and Exclusive License, Royalty, and Advisory Agreement

On September 1, 2016 Immudyne PR entered into a sole and exclusive license, royalty and advisory agreement with Pilaris Laboratories, LLC ("Pilaris") relating to Pilaris' PilarisMax shampoo formulation and conditioner. The term of the agreement will be the life of the US Patent held by Pilaris. As consideration for granting Immudyne PR this license, Pilaris will receive on quarterly basis, 10% of the net income collected by the licensed products based on the following formula: Net Income = total income – cost of goods sold – advertising and operating expenses directly related to the marketing of the licensed products. In addition, Immudyne PR shall pay Pilaris a performance fee of $50,000 on the 180-day anniversary of the agreement and an additional $50,000 performance fee on the 365-day anniversary of the agreement. For the year ended December 31, 2017, the Company recognized expenses related to the performance fee in the amount of $100,000. In April 2017, the Company issued 217,390 shares of common stock and 108,696 warrants, pursuant to a subscription agreement, for the stated consideration and satisfaction of obligation to pay $50,000 on the 180-day anniversary of the execution of this agreement. As of June 30, 2018 and December 31, 2017, $17,645 and $14,039, respectively, was included in accounts payable and accrued expenses in regards to this agreement.

Legal Matters

In the normal course of business operations, the Company may become involved in various legal matters. At June 30, 2018, the Company's management does not believe that there are any potential legal matters that could have an adverse effect on the Company's financial position.

10. Product Deposit

Many of our vendors require deposits when a purchase order is placed for goods. Our vendors issue a credit memo when sending their final invoice, reducing the amount the Company owes for the deposit amount on file with the vendors. As of June 30, 2018, the Company has $84,000 of products deposit with multiple vendors for the purchase of raw materials for products we sell online.

11. Related Party Transactions

Certain related party transactions were incurred by the legacy business that was sold in February 2018, including reimbursement of home office expenditures to the Company's former President, employment of the Company's former President's wife, and legal and business advisory services provided by one of its directors.

Immudyne PR utilizes BV Global Fulfillment, owned by the father of Mr. Schreiber, the Company's current Chief Executive Officer, and incurred $60,463 and $42,556 for the six months ended June 30, 2018 and 2017, respectively, for these services. For the three months ended June 30, 2018, the Company has incurred $30,743 and $32,160, respectively, for these services.

Taggart International Trust ("Taggart"), a shareholder; provides credit card processing services through one or more merchant banks. Taggart did not receive any compensation for these services.

JLS Ventures LLC, owned by our current CEO, provides credit card processing services through one or more merchant banks. JLS Ventures LLC did not receive any compensation for these services.

JSDC, Inc., owned by CEO, provides credit card processing services through one or more merchant banks. JSDC, Inc. did not receive any compensation for these services.

Immudyne PR utilizes office space in Puerto Rico which is subleased from Mr. Schreiber (President and CEO) incurs expense of approximately $4,000 a month for this office space.

In December 2017, Immudyne PR received two working capital loans from Robert Kalkstein, the Company's CFO, and from Mr. Schreiber for $50,000 and $75,000, respectively. The loans accrue at 2% interest per month and mature in February 2018. Accrued interest relating to the loans were $1,867 as of December 31, 2017. In February 2018, these loans were repaid in full.

During 2017, the Company issued a total of 1,319,211 shares of common stock to Mr. Schreiber pursuant to a conversion of Immudyne PR equity contributions of $303,419 into equity of the Company.

On November 20, 2017, the Company entered into an agreement (the "Agreement") with JOJ Holdings, LLC ("JOJ"). Pursuant to the terms of the Agreement, the Company purchased 2,000,000 shares (post-split from a 2:1 forward split on January 16, 2018) of Blockchain Industries, Inc. ("BCII") from JOJ. The Agreement was amended on December 8, 2017 and again on March 9, 2018. In consideration for the purchase, the Company agreed to issue one (1) share of the Company's common stock to JOJ for every dollar the Company realizes from gross proceeds on the sale of shares of BCII purchased pursuant to the Agreement, up to a total maximum aggregate amount of 5,000,000 shares. The Company has 3 years to sell the shares of BCII and has agreed not to sell more than 20% of the 30-day average daily trading volume of BCII. Justin Schreiber, the Company's President and CEO, is the President and owner of JOJ. The transaction was determined not to meet the criteria for recognition as an exchange transaction, therefore no asset or liability has been recorded in the financial statements.

12. Subsequent Events

The Company has evaluated subsequent events through the date these financial statements were issued.

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

Overview

We are an internet based direct response marketing company that in-licenses, acquires or creates innovative and proprietary products that can be sold to consumers around the world via our technology infrastructure and relationships with agencies, third party marketers, and online advertising platforms such as Facebook and Google. We currently have three commercial stage products and intend to launch an additional two products in 2018. Our leading product, launched in the second quarter of 2017, is a patented shampoo, conditioner, and leave-in foamer for thicker, fuller hair. Our second product, launched in the first quarter of 2018, is a nutritional supplement for immune support. Our third product, launched in the second quarter of 2018, is a PDF conversion software, which was acquired through the purchase of 51% of the membership interests of LegalSimpli Software, LLC, a Puerto Rico limited liability company, which operates a marketing-driven software solutions business.

We launched our online direct marketing business in the fourth quarter of 2015 with the establishment of a partnership with Inate Skincare, LLC ("Inate"). Our initial intention was to launch a skin care line containing our proprietary ingredients and to market such products directly to consumers. The Company entered into a limited liability company operating agreement with its joint venture partners with respect to Inate under the legal name Immudyne PR LLC ("Immudyne PR"). On April 1, 2016, the original operating agreement of Immudyne PR was amended and restated and we increased our ownership and voting interest in Immudyne PR to 78.16667%.

During our fiscal year ended December 31, 2017, we manufactured, distributed and sold natural immune support products; namely proprietary yeast beta glucans which are natural extracts that have been shown through testing and analysis and scientific research to support the immune system. Yeast beta glucans are classified as generally recognized as safe ("GRAS") by the Food and Drug Administration ("FDA"). We are and have been a science driven company for more than 25 years. Our products are used in oral and topical applications. Historically, we have sold our proprietary additives, for both oral and topical use, primarily via business-to-business to large dietary supplement and cosmetic companies.

Our priority is to pursue opportunities to market our products and increase sales. We expect that a significant component of our selling, general and administration expenses going forward will consist of service fees to maintain skilled professionals to market our products online, as well as conducting analysis on market trends and dynamically change our approach to drive sales. These aforementioned costs, along with the additional costs resulting from our operations as a public reporting company, could adversely impact our future results of operations. Additional significant factors that we believe will affect our operating results going forward are: (i) protection of our intellectual property rights; (ii) imposition of more stringent government regulations of our products; and (iii) direct marketing expenses.

In the 2016 fiscal year, we utilized third party entities to provide and increase credit card processing capacity and optimize corresponding rates and fees through one or more merchant bank accounts held by such entities. A majority of these entities providing these services were consolidated as VIEs which received a one (1%) percent fee eliminated in consolidation of the net revenues processed and collected by such contractors from sales initiated by the Company. The remaining entities provided such services as independent contractors, the majority of which were considered related parties and no fee was paid. Upon receipt of funds by such contractors from their respective merchant banks, the Company required the prompt transfer of funds to Company controlled accounts. The Company reimbursed and/or advanced funds to such contractors for any deficit or charge related to returns, chargeback and other fees charged by such merchant bank. Some of the entities contracted to provide these services have been determined to be variable interest entities and consolidated in the Company's financial statements. By our fiscal year ending December 31, 2017, we ceased processing credit card charges through all VIE merchant accounts. At December 31, 2017, we recorded the merchant reserves from these VIE merchant accounts on our balance sheet as Accounts Receivable.

We historically have expended a significant amount of our funds on obtaining and protecting our patents, trade secrets and proprietary products. We rely on the patent and trademark protection laws in the U.S. to protect our intellectual property and maintain our competitive position in the marketplace.

We have historically operated with limited capital and have funded operations in the past through the sales of our products and loans and advances from our past executives and directors. Late in the 2016 fiscal year and early in 2017, the Company issued several 11% subordinated promissory notes to accredited investors for total borrowings of $200,000, which have been satisfied in 2016 and 2017. In late 2017, we obtained $125,000 in promissory notes from our executive officers for the Immudyne PR entity, which were satisfied in early 2018. We plan on our operating business (in conjunction with proceeds from debt and equity financings completed in 2016 and early 2017) to be able to fund operations through 2018. However, in the event we require additional operating capital we may have to depend on sources other than operating revenues to meet our operating and capital needs. No assurance can be given that such sources will be available, and no assurance can be given that our executive officers or other directors who have, in the past, willingly funded operations will commit to do so in the future, or that we will be successful in our endeavors to raise additional capital. For additional information regarding these and other risks please see "Risk Factors" contained in our annual report for the fiscal year ended December 31, 2017.

Divestiture of Nutraceutical and Cosmetic Additives Business

Throughout 2017, we manufactured, distributed and sold natural immune support products containing our proprietary yeast beta glucans, a group of beta glucans naturally occurring in the cell walls of yeast that have been shown through testing and analysis to support the immune system. Beta glucans, or β-Glucans, are a natural extract that are considered to be "biological response modifiers" that support the immune system. The most common sources of beta glucans are from the cell walls of baker's yeast, the cellulose in plants, the bran of cereal grains and certain fungi and bacteria.

In 2017, our yeast beta glucan nutraceutical and cosmetic product lines consisted of our natural, premium yeast beta glucans in oral and topical applications. We offered our yeast beta glucans as natural raw material ingredients in bulk quantities under our "Nutraceutical and Cosmetic Additives" segment, and finished, consumer products packaged under our brands as well as private label brands under our "Finished Cosmetic Products" segment, which were marketed directly to consumers.

In the first quarter of 2018 we sold assets and certain liabilities related to our legacy business that manufactured raw yeast beta glucan. As a result of this divestiture, we now solely operate our online direct marketing business owned by Immudyne PR.

Acquisition of Membership Interest Purchase Agreement

On May 29, 2018, Immudyne, PR acquired 51% of the membership interests (the "Membership Interests") of LegalSimpli Software, LLC, a Puerto Rico limited liability company ("LSS"), which operates a marketing-driven software solutions business.

In consideration for Buyer's purchase of the Membership Interests the Buyer paid $150,000 (the "Initial Payment") to the Sellers upon execution of the Purchase Agreement. Additionally, Buyer may be obligated to pay up to an additional $200,000 in accordance with the following milestones (the "Milestones"): (i) $100,000 to the Sellers on the 90-day anniversary of the Purchase Agreement, so long LSS's gross revenue for the preceding 30-day period is equal to or greater than $75,000; and (ii) $100,000 to the Sellers on the 180-day anniversary of the Purchase Agreement, so long as LSS's gross revenue for the preceding 30-day period is equal to or greater than $150,000, with a minimum net profit margin of 25% in each instance.

Regardless of whether LSS achieves either or both of the Milestones, Buyer will retain full ownership of the Membership Interests.

Results of Operations

Three Months Ended June 30, 2018, compared to the Three Months Ended June 30, 2017

The following table sets forth the results of our current operations for the three month periods indicated as a percentage of net sales:

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	$	***% of Sales***	***$***	***% of Sales***
Net Sales	2,037,636		660,087	
Cost of sales	534,727	15%	185,098	22%
Gross profit	1,502,909	41%	474,989	57%
Operating expenses	2,100,402	58%	855,291	103%
Operating (Loss)	(597,493)	(16)%	(380,302)	(46)%
Change in fair value of derivative liability	-	-%	922,022	111%
Interest (expense)	(51,078)	(1)%	(250)	-%
Loss from continuing operations	(648,571)	(18)%	541,470	65%
Income from discontinued operations, including gain on sale, net of income taxes	-	-%	154,825	19%
Net income (loss)	**(648,571)**	**(18)%**	**696,295**	**84%**
Net Income (loss) attributable to noncontrolling interests	(41,539)	(1)%	(41,194)	(5)%
Net Income (loss) attributable to Conversion Labs, Inc.	(607,032)	(17)%	737,489	89%

Net Sales

Sales were approximately $2.04 million for the three months ended June 30, 2018, compared to approximately $660,000 for the three months ended June 30, 2017. The increase of approximately 209% is attributed mainly to more resources being invested into our in-licensed patented hair loss shampoo, conditioner, and leave in foam during the second quarter of 2018.

Cost of Sales

Total cost of sales was approximately $535,000 for the three months ended June 30, 2018, compared to approximately $185,000 for the three months ended June 30, 2017. The increase in our cost of sales was mainly due to increased sales as of our in-licensed patented hair loss shampoo, conditioner, and leave in foam during the second quarter of 2018. Cost of sales consists primarily of material costs and related overhead directly attributable to the production of our products. Cost of Sales as a percentage of income decreased as we were able to take advantage of volume pricing discounts from our vendors.

Gross Profit

Gross profit was approximately $1.50 million for the three months ended June 30, 2018, compared to approximately $475,000 for the three months ended June 30, 2017, an increase of approximately 216%. The increase in our gross profit was a result of the increased sales of our in-licensed patented hair loss shampoo, conditioner and leave-in foam.

Operating Expenses

Total operating expenses increased approximately 146% to approximately $2.10 million for the three months ended June 30, 2018, from approximately $855,000 for the three months ended June 30, 2017. The increase in our operating expenses between the periods was mostly attributable to our increased marketing efforts for our in-licensed patented hair loss shampoo, conditioner and leave-in foam, which increased approximately $982,000 over from the three-months ended June 30, 2018 compared to the three-months ended June 30, 2017. We also had increased compensation expenses and professional fees, however lower general and administrative costs during the comparable period.

Net Income

Net loss from continuing operations for the three months ended June 30, 2018 was approximately $649,000, compared to net income from continuing operations of approximately $541,000 for the three months ended June 30, 2017. Our net loss from continuing operations for the three months ended June 30, 2018 was mostly attributable to our increased marketing efforts, whereas our net income from continuing operations for the three months ended June 30, 2017 was mostly attributable to the change in fair value of derivative liability, offset by mostly general and administrative expenses as we incurred costs of while launching the online marketing of products. As a result of the sale of our Nutraceutical and Cosmetic Additives business, we recorded net income from discontinued operations of approximately $649,000 for the three months ended June 30, 2018 versus net income from discontinued operations of approximately $696,000 for the three months ended June 30, 2017. We consolidated the operations of our joint venture, Immudyne PR and reflected a non-controlling interest for 21.8333% of these operations. Net loss attributable to the Company as a percentage of sales was approximately 17% for the three months ended June 30, 2018, compared to net income as a percentage of sales of approximately 89% for the three months ended June 30, 2017. Our net loss during the period was mostly attributable to the increasing in marketing efforts.

Results of Operations

Six Months Ended June 30, 2018, compared to the Six Months Ended June 30, 2017

The following table sets forth the results of our current operations for the six- month periods indicated as a percentage of net sales:

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	$	***% of Sales***	***$***	***% of Sales***
Net Sales	3,644,127		827,986	
Cost of sales	890,180	24%	273,271	33%
Gross profit	2,753,947	76%	554,715	67%
Operating expenses	(3,630,754)	(100)%	(1,336,810)	(161)%
Operating (Loss)	(876,807)	(24)%	(782,095)	(94)%
Change in fair value of derivative liability	-	-%	873,830	106%
Interest (expense)	(57,528)	(2)%	(649,607)	(78)%
Loss from continuing operations	(934,335)	(26)%	(557,872)	(67)%
Income from discontinued operations, including gain on sale, net of income taxes	925,738	25%	181,632	22%
Net income (loss)	**(8,597)**	**-%**	**(376,240)**	**(45)%**
Net Income (loss) attributable to noncontrolling interests	-28,842	(1)%	(68,924)	(8)%
Net Income (loss) attributable to Conversion Labs, Inc.	20,245	1%	(307,316)	(37)%

Net Sales

Sales were approximately $3.6 million for the six months ended June 30, 2018, compared to approximately $828,000 for the six months ended June 30, 2017. The increase of approximately 340% is attributed to more resources allocated to our in-licensed patented hair loss shampoo, conditioner, and leave in foam during the first half of 2018.

Cost of Sales

Total cost of sales was approximately $890,000 for the six months ended June 30, 2018, compared to $273,000 for the three months ended June 30, 2017. The increase in our cost of sales was due to increased sales from our in-licensed patented hair loss shampoo, conditioner, and leave in foam during the first half of 2018. Cost of sales consists primarily of material costs and related overhead directly attributable to the production of our products. Cost of Sales as a percentage of income decreased as we were able to take advantage of volume pricing discounts from our vendors.

Gross Profit

Gross profit was approximately $2.75 million for the six months ended June 30, 2018, compared to approximately $555,000 for the six months ended June 30, 2018, an increase of approximately 396%. The increase in our gross profit was a result of the increased sales of our in-licensed patented hair loss shampoo, conditioner and leave-in foam.

Operating Expenses

Total operating expenses increased approximately 172% to approximately $3.63 million for the six months ended June 30, 2018, from approximately $1.34 million for the six months ended June 30, 2017. The increase in our operating expenses between the periods was mostly attributable to our increased marketing efforts for our in-licensed patented hair loss shampoo, conditioner and leave-in foam.

Net Income

Net loss from continuing operations for the six months ended June 30, 2018 was approximately $934,000, compared to net loss from continuing operations of approximately $558,000 for the six months ended June 30, 2017. Our net loss from continuing operations for the six months ended June 30, 2018 was mostly attributable to our increased marketing efforts, whereas our net loss from continuing operations for the six months ended June 30, 2017 was mostly attributable to general and administrative and compensation expenses as we incurred costs of building resources and hiring employees prior to launching the online marketing of products. As a result of the sale of our Nutraceutical and Cosmetic Additives business, we recorded net income from discontinued operations of approximately $926,000 for the six months ended June 30, 2018 versus net income from discontinued operations of approximately $182,000 for the six months ended June 30, 2017. We consolidated the operations of our joint venture, Immudyne PR and reflected a non-controlling interest for 21.8333% of these operations. Net income attributable to the Company as a percentage of sales was approximately 1% for the six months ended June 30, 2018, compared to net loss as a percentage of sales of approximately 37% for the six months ended June 30, 2017. Our net income during the period was attributable to the gain recorded on the sale of our Nutraceutical and Cosmetic Additives business, which offset increasing in marketing efforts.

Liquidity and Capital Resources

Our principal demands for liquidity are to increase sales via online marketing, purchase inventory and for sales distribution and general corporate purposes. We incurred negative operating cash flows of our continued operations to date in 2018 as well as in the 2017 fiscal year. As a result, we have substantial doubt about our ability to continue as a going concern. In early in 2017, the Company issued several 11% subordinated promissory notes to accredited investors for total borrowings of $200,000. Additionally, the Company borrowed $200,000 at 11% from an investor and borrowed $100,000 from an officer of the Company. In late 2017, the Company borrowed $125,000 from its executives. Each of these borrowings have since been satisfied in full with a combination of repayment in cash and conversion of certain amounts outstanding to equity of the Company.

In our fiscal year 2017, the Company issued and sold 2,927,156 shares and 1,414,078 warrants to accredited investors in an offering pursuant to Regulation D and received proceeds in the amount of $673,245. We do not plan on our operating business (in conjunction with proceeds from debt and equity financings completed in 2017) being able to fund operations through 2018. After the sale of our legacy Nutraceutical and Cosmetic Additives business the Company loaned Immudyne PR LLC $100,000 to fund its operations because of increased marketing activity. In March 2018, the Company began seeking additional debt and equity financing to raise capital for its continued operations, and in May 2018, the Company borrowed $550,000 and issued convertible notes payable with a maturity date of May 28, 2019 in connection therewith. These notes accrue interest at a rate of 12% compounded annually. The conversion price for these notes is $0.23 per share of common stock, subject to adjustment. In the event the average VWAP (as defined) for the consecutive five trading days preceding but not including the six month anniversary of the original issue date of the note is less than the then conversion price in effect on such six month anniversary date, then the conversion price shall be reduced to 80% of the VWAP for the ten trading days following (but not including) such six month anniversary date, subject to further reduction. In addition, in connection with this May financing the Company issued warrants to purchase up to 2,391,305 shares of common stock at a price of $0.28 per share. Even after the May 2018 financing, the Company may need to raise more capital to fund its operations.

There can be no assurance that required future financing can be successfully completed on a timely basis, or on terms acceptable to us. Any future issuance of equity securities could cause dilution to our shareholders. Any incurrence of indebtedness would increase our debt service obligations and would cause us to be subject to restrictive operating and financial covenants.

We had positive net working capital of $959,898 at June 30, 2018, resulting in an increase in working capital from net working capital of $622,839 at December 31, 2017. The ratio of current assets to current liabilities was 2.88 to 1 at June 30, 2018.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended June 30, 2018 and 2017:

	2018	2017
Cash provided by (used in):		
Operating activities of continuing operations	$ (228,176)	(512,569)
Investing activities	241,445	-
Financing activities	536,521	766,094

Net cash used by operating activities of continuing operations was $228,176 for the six months ended March 31, 2018, compared to net cash used in operating activities of continuing operations of $512,569 for the same period in 2017. The decrease in the amount of cash used by our operating activities was due primarily our ability to generate more cash from higher sales of product from our online marketing business run out of Immudyne PR LLC.

Net cash flows used in financing activities was $536,521 for the six months ended June 30, 2018, compared to net cash flows provided by financing activities of $766,094 for the same period in 2017. Our decrease in net cash flows provided by financing activities was primarily a result of the sale of our common stock and warrants, and proceeds from notes payable in the first quarter of 2017, in addition to the repayment of notes payable to executives in the first quarter of 2018.

Indebtedness

From time to time, our directors, officers and other related individuals have made short-term advances to us for our operating needs. Early in 2017, the Company issued several 11% subordinated promissory notes to accredited investors for total borrowings of $200,000, borrowed $200,000 at 11% from an investor and borrowed $100,000 from an officer of the Company. In late 2017, the Company borrowed $125,000 from its executives. Each of these borrowings have since been satisfied in full with a combination of repayment in cash and conversion of certain amounts outstanding to equity of the Company.

Off-Balance Sheet Arrangements

On November 20, 2017, the Company entered into an agreement (the "Agreement") with JOJ Holdings, LLC ("JOJ"). Pursuant to the terms of the Agreement, the Company purchased 2,000,000 shares (post-split from a 2:1 forward split on January 16, 2018) of Blockchain Industries, Inc. ("BCII") from JOJ. The Agreement was amended on December 8, 2017 and again on March 9, 2018. In consideration for the purchase, the Company agreed to issue one (1) share of its common stock to JOJ for every dollar the Company realizes from gross proceeds on the sale of shares of BCII purchased pursuant to the Agreement, up to a total maximum aggregate amount of 5,000,000 shares. The Company has 3 years to sell the shares of BCII and has agreed not to sell more than 20% of the 30-day average daily trading volume of BCII. Justin Schreiber, the Company's President and CEO, is the President and owner of JOJ. The initial assessment of this transaction was determined not to meet the basis of an exchange transaction per ASC 845-10-20. The Company will reassess the off-balance sheet arrangement at each reporting period to determine the any change in the accounting as an off-balance sheet arrangement.

Critical Accounting Policies

Our significant accounting policies are described more fully in Note 2 of our Form 10-K filed April 2, 2018, which we believe are the most critical to aid you in fully understanding and evaluating this management discussion and analysis.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Principal Executive Officer ("PEO"), and our Principal Financial Officer ("PFO"), of the design and effectiveness of our "disclosure controls and procedures" (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our PEO/PFO concluded that as of the end of the period covered by this report, these disclosure controls and procedures were not effective for the Company or our majority owned subsidiaries Immudyne PR and LegalSimpli. The conclusion that our disclosure controls and procedures were not effective was due to the presence of the following material weaknesses in disclosure controls and procedures which are indicative of many small companies with small staff: (i) inadequate segregation of duties and effective risk assessment as the Company's officers did not have ample time to prepare sufficient risk assessments for the reporting period; (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC Guidelines; (iii) inadequate security and restricted access to computer systems including insufficient disaster recovery plans; and (iv) no written whistleblower policy.

Our PEO and PFO intend to implement appropriate disclosure controls and procedures to remediate these material weaknesses. During 2018, we expect more internal controls, financial and operational, to be implemented, especially around inventory and operational controls, which management has identified as a material control deficiency.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the six-month period ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may become involved in various lawsuits and legal proceedings arising in the ordinary course of business. Litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may have an adverse effect on our business, financial conditions or operating results. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

Item 1A. Risk Factors

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on April 2, 2018.

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

On March 20, 2018, the Company issued 500,000 shares of restricted stock, valued at $120,000, to consultants to perform investor relation services, which was later cancelled. The Company re-issued 250,000 shares of restricted stock to the same consultant valued at $62,500 on May 14, 2018.

On April 30, 2018, the Company issued 200,000 shares of restricted stock, valued at $56,000, to consultants to perform investor relation services.

On May 24, 2018, the Company issued 1,000,000 shares of restricted stock, valued at $230,000, to JLS Ventures, LLC, controlled by our CEO, Justin Schreiber, to perform CEO services for the period of January 1, 2018 through December 31, 2019.

Other than disclosed above, there were no unregistered sales of equity securities that were not otherwise disclosed in a current report on Form 8-K.

All of the securities were issued in reliance on the exemption under Section 4(a)(2) and/or Regulation D of the Securities Act.

Item 3. Defaults Upon Senior Securities

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There is no other information required to be disclosed under this item which has not been previously reported.

Item 6. Exhibits

Exhibit No.	Document Description
3.1	Immudyne, Inc. By-Laws, dated April 9, 2018 (incorporated herein by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 10, 2018).
3.2	Certificate of Amendment of Certificate of Incorporation of Conversion Labs, Inc. (incorporated herein by reference to Exhibit 3.5 to the Company's Registration Statement on Form S-1 filed with the SEC on June 27, 2018).
10.1	Purpurex License Agreement by and between Immudyne, PR, LLC and M.Alphabet, LLC, dated March 26, 2018 (incorporated herein by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 5, 2018).
10.2	Form of Membership Interest Purchase Agreement (incorporated herein by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.3	Form of Line of Credit (incorporated herein by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.4	Amended Operating Agreement (incorporated herein by reference to exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.5	Form of Securities Purchase Agreement (incorporated herein by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.6	Form of Senior Convertible Note (incorporated herein by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.7	Form of Warrant (incorporated herein by reference to exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.8	Form of Registration Rights Agreement (incorporated herein by reference to exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.9	Form of Lock-Up Agreement (incorporated herein by reference to exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.10	Form of Security Agreement (incorporated herein by reference to exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
10.11	Form of Guaranty Agreement (incorporated herein by reference to exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2018).
31.1 †	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 †	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 †	Certifications of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 †	Certifications of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document
101.SCH†	XBRL Schema Document
101.CAL†	XBRL Calculation Linkbase Document
101.DEF†	XBRL Definition Linkbase Document
101.LAB†	XBRL Label Linkbase Document
101.PRE†	XBRL Presentation Linkbase Document

(†) filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONVERSION LABS, INC.
(Registrant)

Date: August 17, 2018

By: /s/ Justin Schreiber
Justin Schreiber
Chief Executive Officer
(Principal Executive Officer)