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 September 30, 2019

or

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

For the Transition Period from _________ to _________

Commission file number: 000-55857

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

Delaware	**76-0238453**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 Third Avenue, Suite 2800, New York, NY New York, NY	**10022**
(Address of Principal Executive Offices)	(Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading symbol(s)**	**Name of exchange on which registered**
None	None	None

Indicate by check mark 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 past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer," a "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	☒
		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 7(a)(2)(B) of the Securities Act: ☐

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

As of November 14, 2019, there were 53,404,045 shares of the registrant’s common stock outstanding.

CONVERSION LABS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONVERSION LABS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Current Assets		
Cash	$ 780,893	$ 180,093
Trade accounts receivable, net	65,254	99,053
Product deposit	51,813	33,302
Inventory, net	747,525	1,022,616
Other current assets	115,949	270,006
Total Current Assets	$ 1,761,434	$ 1,605,070
Non-current assets		
ROU Asset	25,442	—
Intangible assets, net	759,356	1,011,065
Total non-current assets	784,798	1,011,065
Total Assets	$ 2,546,232	$ 2,616,135
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,027,290	$ 868,997
Notes payable, net	722,647	247,416
Deferred revenue	234,239	75,984
Total Current Liabilities	2,984,176	1,192,397
Long-term Liabilities		
Lease Liability	29,978	—
Contingent consideration on purchase of LegalSimpli	100,000	600,000
Liability to issue shares	—	—
Deferred tax liability	—	4,000
Total Liabilities	3,114,154	1,796,397
Stockholders' Equity (Deficit)		
Common stock, $0.01 par value; 100,000,000 shares authorized, 53,403,649 and 45,267,105 shares issued, 52,888,449 and 45,267,105 outstanding as of September 30, 2019 and December 31, 2018, respectively	534,037	457,822
Additional paid-in capital	15,043,196	12,744,249
Accumulated (deficit)	(15,883,372)	(12,140,670)
	(306,139)	1,061,401
Treasury stock, 515,200 and 515,200 shares, at cost	(163,701)	(163,701)
Total Conversion Labs, Inc. Stockholders' (Deficit)	(469,840)	897,700
Non-controlling interest	(98,082)	(77,962)
Total Stockholders' (Deficit)	(567,922)	819,738
Total Liabilities and Stockholders' (Deficit)	$ 2,546,232	$ 2,616,135

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

CONVERSION LABS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Sales	$ 3,126,727	$ 2,037,636	$ 8,524,124	$ 6,139,551
Cost of Sales	680,081	534,727	2,013,265	1,329,881
Gross Profit	2,446,646	1,502,909	6,510,859	4,809,670
Operating expenses				
Compensation and related expenses	456,604	321,933	1,328,137	787,898
Professional fees	418,611	410,340	696,557	852,498
Marketing expenses	2,068,017	1,407,911	5,574,911	3,576,096
General and administrative expenses	477,120	301,174	1,281,494	855,620
Total operating expenses	3,420,352	2,441,358	8,881,099	6,072,112
Operating Loss	(973,706)	(938,449)	(2,370,240)	(1,262,442)
Interest (expense)	(130,936)	(147,664)	(430,956)	(205,192)
Loss from continuing operations before provision for income taxes	(1,104,642)	(1,086,113)	(2,801,196)	(1,467,634)
Income taxes (Benefit)	—	—	—	—
Income from discontinued operations, including gain on sale, net of income taxes	—	—	—	925,738
Net Income (Loss)	(1,104,642)	(1,086,113)	(2,801,196)	(541,896)
Net (loss) income attributable to noncontrolling interests	(160,838)	(37,318)	(375,540)	(66,160)
Net Income (loss) attributable to Conversion Labs, Inc.	(943,804)	(1,048,795)	(2,425,656)	(475,736)
Basic loss per share attributable to Conversion Labs, Inc. from continuing operation	$ (0.02)	$ (0.02)	$ (0.06)	$ (0.03)
Basic income per share attributable to Conversion Labs, Inc. from discontinued operation	—	—	—	0.02
Diluted loss per share attributable to Conversion Labs, Inc. from continuing operation	(0.02)	(0.02)	(0.06)	(0.03)
Diluted income per share attributable to Conversion Labs, Inc. from discontinued operation	$ —	$ —	$ —	$ 0.02
Weighted Average number of common shares outstanding				
Basic	50,674,838.43	44,436,030.00	48,135,466.45	43,708,092.00
Diluted	50,674,838.43	44,436,030.00	48,135,466.45	43,708,092.00

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

CONVERSION LABS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended September 30, 2019

	Conversion Labs, Inc.							
	Common Stock		Additional Paid-in	Accumulated	Treasury		Noncontrolling	
	Shares	Amount	Capital	(Deficit)	Stock	Total	interest	Total
Balance at December 31, 2018	45,782,305	$457,822	$12,744,249	$ (12,140,670)	$(163,701)	$ 897,700	$ (77,962)	$ 819,738
Stock issued for services	100,000	1,000	15,000			16,000		16,000
Stock compensation	1,000,000	10,000	530,015			540,015		540,015
Warrants issued in conjunction with stock			20,825			20,825		20,825
Warrants issued in conjunction with debt			569,146			569,146		569,146
Shares purchased	1,521,344	15,215	313,961			329,176		329,176
Distributions to non-controlling interest						—	(61,626)	(61,626)
Agreement to issue shares for non-controlling interest in CVLB PR	5,000,000	50,000	850,000	(1,317,046)		(417,046)	417,046	—
Net (loss)				(2,425,656)		(2,425,656)	(375,540)	(2,801,196)
Balance at September 30, 2019	53,403,649	$534,037	$15,043,196	$ (15,883,372)	$(163,701)	$ (469,840)	$ (98,082)	$ (567,922)

CONVERSION LABS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended September 30, 2018
(unaudited)

	Conversion Labs, Inc.							
	Common Stock		Additional Paid-in	Accumulated	Treasury	Sub	Noncontrolling	
	Shares	Amount	Capital	(Deficit)	Stock	Total	interest	Total
Balance at December 31, 2017	44,493,063	$444,930	$11,500,537	$ (10,899,843)	$(163,701)	$ 881,923	$ (259,084)	$ 622,839
Stock compensation	1,450,000	14,500	444,350	—	—	458,850	—	458,850
Stock repurchase from shareholder	—	—	—	—	(460,000)	(460,000)	—	(460,000)

Retirement of common stock	(2,000,000)	(20,000)	(440,000)	—	460,000	—	—	—
Conversion of non-controlling interest equity for shares and warrants	—	—	—	—	—	—	—	—
Warrants Issued in relation to debt offering	—	—	533,691	—	—	533,691	—	533,691
Exercise of stock options	40,800	408	3,672	—	—	4,080	—	4,080
Conversion of Notes Payable	1,351,094	13,511	297,241	—	—	310,752	—	310,752
Noncontrolling interest in acquisition of subsidiary	—	—	—	—	—	—	144,118	144,118
Investment in subsidiary by noncontrolling interest, net of distributions	—	—	—	—	—	—	127,048	127,048
Net (loss)	—	—	—	(475,736)	—	(475,736)	(66,160)	(541,896)
Balance at September 30, 2018	45,334,957	$453,349	$12,339,491	$ (11,375,579)	$(163,701)	$1,253,560	$ (54,078)	$1,199,482

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

CONVERSION LABS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended September 30, 2019

	Conversion Labs, Inc.							
	Common Stock		Additional Paid-in	Accumulated	Treasury		Noncontrolling	
	Shares	Amount	Capital	(Deficit)	Stock	Total	interest	Total
Balance at June 30, 2019	46,882,305	$468,822	$13,122,309	$ (14,941,929)	$(163,701)	$(1,514,499)	$ 85,415	$(1,429,084)
Stock compensation	—	—	166,955	—	—	166,955	—	166,955
Distributions to non-controlling interest							(27,328)	(27,328)
Agreement to issue shares for non-controlling interest in CVLB PR	5,000,000	50,000	850,000	2,361	—	902,361	4,669	907,030
Warrants issued in conjunction with stock			20,825			20,825		20,825
Warrants issued in conjunction with debt			569,146			569,146		569,146
Shares purchased	1,521,344	15,215	313,961			329,176		329,176
Net (loss)				(943,804)		(943,804)	(160,838)	(1,104,642)
Balance at September 30, 2019	53,403,649	534,037	15,043,196	(15,883,372)	(163,701)	(469,840)	(98,082)	(567,922)

CONVERSION LABS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended September 30, 2018
(unaudited)

	Conversion Labs, Inc.							
	Common Stock		Additional Paid-in	Accumulated	Treasury		Noncontrolling	
	Shares	Amount	Capital	(Deficit)	Stock	Total	interest	Total
Balance at June 30, 2018	42,993,063	$429,930	$11,139,850	$ (10,272,566)	$(163,701)	$ 1,133,513	$ (246,387)	$ 887,126
Stock compensation	950,000	9,500	118,454			127,954	—	127,954
Exercise of stock options	40,800	408	3,672			4,080	—	4,080
Conversion of Notes Payable	1,351,094	13,511	1,077,515	—	—	1,091,026	—	1,091,026
Noncontrolling interest in	—	—	—	—	—	—	256,579	256,579

acquisition of subsidiary								
Investment in subsidiary by noncontrolling interest, net of distributions	—	—	—	—	—	—	(26,952)	(26,952)
Net (loss)				(1,103,013)		(1,103,013)	(37,318)	(1,140,331)
Balance at September 30, 2019	45,334,957	453,349	12,339,491	(11,375,579)	(163,701)	1,253,560	(54,078)	1,199,482

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

CONVERSION LABS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) income	$ (2,801,196)	$ (541,896)
Adjustments to reconcile net (loss) income to net cash provided by (used) in operating activities		
Amortization of debt discount	324,448	181,309
Amortization and depreciation		41,891
Amortization of intangibles	251,709	—
Operating Lease Payments	4,536	—
(Gain) loss on discontinued operations and disposal	—	(918,537)
Stock issued for services	16,000	—
Stock compensation expense	540,015	458,850
Liability to issue shares for services	—	—
Changes in Assets and Liabilities		
Trade accounts receivable	33,799	(47,441)
Product deposit	(18,511)	(90,200)
Inventory	275,091	57,812
Other current assets	154,057	(138,050)
Deferred revenue	158,255	15,348
Deferred tax liability	(4,000)	—
Accounts payable and accrued expenses	1,158,293	208,426
Net cash provided by (used in) operating activities of continuing operations	92,496	(772,488)
Net cash used in operating activities of discontinued operations	—	283,287
Net cash provided by operating activities	92,496	(489,201)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment to seller for contingent consideration	(500,000)	—
Purchase of subsidiary, net of cash received	—	(148,555)
Proceeds from sale of legacy business	—	390,000
Net cash (used in) provided by investing activities	(500,000)	241,445
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to non-controlling interest	(61,626)	—
Investment in subsidiary by noncontrolling interest, net	—	127,048
Proceeds from convertible note payable	1,126,250	550,000
Repayment of notes payable	(345,000)	(167,479)
Proceeds from options exercise	—	4,080
Purchase of shares and warrants	349,999	—
Debt issuance costs	(61,320)	—
Proceeds from notes payable	—	—
Net cash provided by (used in) financing activities	$ 1,008,303	$ 513,649
Net increase in cash	600,799	265,893
Cash at beginning of the period	180,093	141,379
Cash at end of the period	$ 780,892	$ 407,272
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the period for interest	$ 324,372	$ 4,723
Issuance of company stock for investment in subsidiary	$ 900,000	$ —
Retirement of stock	$ —	$ 460,000
Stock repurchase from shareholder	$ —	$ 460,000

Conversion of liability as consideration on sale of legacy business	$ —	$ 150,000
Warrants issued in relation to debt	$ 569,147	$ 533,691
Conversion of notes payable	$ —	$ 310,752

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

CONVERSION LABS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019
(Unaudited)

NOTE 1 – NATURE OF THE ORGANIZATION AND BUSINESS

Nature of Business

Conversions Labs, Inc. ("Conversion Labs," "we," "us," "our," the "Company") is an online marketing and telemedicine company with a portfolio of health and wellness brands sold directly to consumers. Our brands consist of both clinically studied over-the-counter products and prescription drugs. Our products are sold primarily through national advertising campaigns on Facebook, Google, Amazon and other online advertising platforms. After the establishment of a joint venture with GoGoMeds.com in June 2019, we now sell branded and generic prescription drugs directly to consumers in all 50 states and the District of Columbia.

We currently have four commercial stage brands including (i) Shapiro MD, a personalized hair-loss treatment system consisting of 4 patented over-the-counter products and 2 FDA approved drugs for hair re-growth, (ii) iNR Wellness MD, a nutritional supplement for immune and gut support, (iii) RexMD, a male-oriented direct-to-consumer pharmacy line initially focused on generic Viagra and Cialis, and (iv) PDF Simpli, a PDF conversion software, which is marketed through our subsidiary, LegalSimpli Software, LLC, a marketing-driven software solutions business.

We launched our online direct-to-consumer 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. We entered into a limited liability company operating agreement with our joint venture partners with respect to Inate under the legal name Immudyne PR LLC (now known as "Conversion Labs PR LLC"). On April 1, 2016, the original operating agreement of Conversion Labs PR LLC was amended and restated, and we increased our ownership and voting interest in Conversion Labs PR LLC to 78.2%. On April 25, 2019, the operating agreement of Conversion Labs PR LLC was amended and restated in its entirety to increase the Company's ownership and voting interest in Conversion Labs PR LLC to 100%.

As used in these financial statements and unless otherwise indicated, the terms "Company," "we," "us," and "our" refer to Conversion Labs, Inc. (formerly known as Immudyne, Inc.) and our majority-owned subsidiaries LegalSimpli Software, LLC, a Puerto Rico limited liability company ("LegalSimpli"), Conversion Labs PR LLC (formerly Immudyne PR LLC), a Puerto Rico limited liability company ("Conversion Labs PR"), Conversion Labs Media LLC ("CVLB Media"), a Puerto Rico limited liability company, Conversion Labs Rx, LLC ("CVLB Rx"), a Puerto Rico limited liability company, and Conversion Labs Asia Limited, a Hong Kong company ("Conversion Labs Asia"). Unless otherwise specified, all dollar amounts are expressed in United States dollars.

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 ("LegalSimpli"), which operates a marketing-driven software solutions business. In consideration for Immudyne PR's purchase of the Membership Interests, Immudyne PR paid $150,000 to the sellers upon execution of the purchase agreement. Additionally, Conversion Labs PR agreed to pay up to an additional $200,000 for such Membership Interests and an additional $400,000 of contingent consideration should the Company or Conversion Labs PR ever pay a dividend.

Recent Developments

On April 25, 2019, the Company entered into an membership purchase agreement with entities owned by the Company's Chief Executive officer and Chief Technology Officer, Conversion Labs PR, and purchased the remaining 21.8% interest of Conversion Labs PR from the Company's Chief Executive officer and Chief Technology Officer. As such, the Company now wholly-owns 100% of Conversion labs PR. In order to consummate this transaction, the Company agreed to issue 5 million shares of common stock based on the issuance price of $0.18 per share, equal to $900,000 to the Company's Chief Executive Officer and Chief Technology Officer. The shares were not issued until August 6, 2019, therefore, the Company has recorded a liability on the Company's balance sheet as of September 30, 2019.

On May 31, 2019, through our wholly-owned subsidiary, Conversion Labs PR, the Company entered into the operating agreement by and among Conversion Labs Rx, LLC, a Puerto Rico limited liability company ("CVLB Rx"), by and among the Company, Conversion Labs PR, LLC, Harborside Advisors, LLC, Happy Walters, an individual ("Walters"), and David Hanig, an individual ("Hanig", and together with CLPR, Harborside and Walters, each a "Member" and together the "Members"). Pursuant to the operating agreement, the Company, through Conversion Labs PR, owns 51% of the membership interests of CVLB Rx. The operating agreement governs the operations of CVLB Rx and provides for CVLB Rx's management by a Board of Managers of at least three members. Among the provisions of the operating agreement are limitations and restrictions on the disposition of membership interests by a member as further defined therein.

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 its ability to raise additional capital from the sale of common stock or through debt securities. 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. As of September 30, 2019, the Company had an accumulated deficit approximating $15,799,470. Management has significant 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 September 30, 2019, and projected cash needs for 2019, management estimates that it will need to increase sales revenue and/or raise additional capital to cover operating and capital requirements for the 2019 fiscal year. Although management has been successful to date in raising capital to fund operations, 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.

NOTE 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 51% owned subsidiaries, CVLB Rx and LegalSimpli and variable interest entities (VIE's) in which the Company has been determined to be the primary beneficiary. Prior to April 25, 2019, the non-controlling interest in Conversion Labs PR represented 21.833% equity interest held by other members of the joint venture, but as of September 30, 2019 the Company owns 100% of the equity interests of the Conversion Labs PR. 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 in the Company's Annual Report on Form 10-K for December 31, 2018 as filed with the SEC on April 1, 2019.

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, 2018, we ceased processing credit card charges through all VIE merchant accounts. As of September 30, 2019 and December 31, 2018, we recorded the merchant reserves from these VIE merchant accounts on our balance sheet as accounts receivable.

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

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.

Inventory

As of September 30, 2019 and December 31, 2018, inventory consisted primarily of finished cosmetic products. Inventory is maintained in a third-party fulfillment center 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 value, if lower. As of September 30, 2019 and December 31, 2018, the Company recorded an inventory reserve in the amount of $12,500, respectively on the Company's accompanying balance sheet. As of September 30, 2019 and December 31, 2018, the inventory balances, net included on the Company's accompanying balance sheet were approximately $747,525 and $1,022,000, respectively.

Product Deposits

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 September 30, 2019 and December 31, 2018, the Company has approximately $51,813 and $33,000, respectively included on the Company's accompanying balance sheet for product deposits with multiple vendors for the purchase of raw materials for products the Company sells online.

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.

For the Company's product-based contracts with customers, the Company generally records sales of finished products once the customer places and pays for 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, which is usually upon shipment of the product. The Company records an estimate for provisions of discounts, returns, allowances, customer rebates and other adjustments for each shipment, and are netted with gross sales. The Company accounts for such provisions during the same period in which the related revenues are earned. The Company has determined that the population of contracts with customers is typically homogenous, such that review of the contracts and estimate of various revenue related adjustments can be applied to the entire population.

The Company began testing trial offers with the Shapiro MD products in late 2018. The Company was unable to adequately implement a process to report any trial-based revenue and the related impact on inventory. Given the relatively new trial period being offered, the Company has not yet been able to estimate the historical effect to determine how this will change the recording of revenue.

For the Company's software subscription-based contracts with customers, the Company records the sales after completion of the customers 14-day free trial and at the end of the service period for which the customer purchased a monthly subscription or records revenue over time as the yearly subscription lapses. The Company offers either a monthly subscription or a yearly subscription to the Company's software. The Company offers a discount for purchase of the yearly subscription, which must be paid at initiation of the contract term, so that the Contract price is fixed at the contract initiation. Yearly subscriptions for the software are recorded net of discount.

Customer discounts, returns and rebates included on the Company's accompanying statement of operations for the three and nine months ended September 30, 2019 approximated $219,000 and $1,004,000, respectively. Customer discounts, returns and rebates included on the Company's accompanying statement of operations for the three and nine months ended September 30, 2018 approximated $134,000 and $354,000, respectively.

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 September 30, 2019 and December 31, 2018, the accounts receivable reserve included on the Company's accompany balance sheet was $0 for both periods. As of September 30, 2019 and December 31, 2018, the reserve for sales returns and allowances included on the Company's accompany balance sheet was approximately $83,000 and $43,000, respectively.

Income Taxes

The Company files Corporate Federal and State tax returns, while Conversion Labs PR and LegalSimpli, 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 federal and state taxing authorities.

At September 30, 2019, the Company has approximately $5,370,000 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 Company has fully reserved the deferred tax asset resulting from available net operating loss carryforwards.

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.

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 $0 and $13,600 options and warrants for the three and nine months ended September 30, 2019, respectively, have not been included in the loss per share calculations as the effects are anti-dilutive.

Common stock equivalents comprising shares underlying 28,229,377 and 28,229,377 options and warrants for the three and nine months ended September 30, 2018, respectively, have not been included in the income per share calculations as the effects are anti-dilutive.

Recent Accounting Pronouncements

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 CVLB Rx and LegalSimpli 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 Conversion Labs PR, and LegalSimpli'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. These variable interest entities had no significant activity during the preceding six months ending September 30, 2019 or the year ended December 31, 2018.

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 tens of 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 September 30, 2019, the Company's accounts receivable had no significant concentration from any one customer. As of September 30, 2019, three credit card processors accounted for 66%, 18% and 12% of accounts receivable.

NOTE 3 – DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

On January 29, 2018, the Company entered into a Legacy Asset Sale Agreement (the "Asset Sale Agreement") with Mark McLaughlin (the Company's former President and Chief Executive Officer) whereby the Company sold the net assets of its legacy beta glucan business for $850,000. On February 7, 2018, the Company and Mr. McLaughlin entered into an amendment to the Asset Sale Agreement (the "Asset Sale Agreement Amendment") 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 Asset Sale Agreement Amendment 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. As part of the Asset Sale Agreement, the Company and Mark Mclaughlin agreed that the options that were fully vested are no longer issuable and agreed that any contingently issuable performance options issued to Mark McLaughlin and his related family members were cancelled. These cancelled options consisted of approximately 600,000 services based options and 2,000,000 contingently issuable performance options.

NOTE 4 – BUSINESS COMBINATION

Acquisition of Membership Interest Purchase Agreement

On May 29, 2018 (the "Closing Date"), Immudyne, PR (currently Conversion Labs PR) entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") by and among nine individuals, as Sellers and Conversion Labs PR, as buyer ("Buyer"), pursuant to which Buyer acquired from Sellers all of Sellers' right, title and interest in and to an aggregate 51% of the membership interests (the "Membership Interests") of LegalSimpli Software, LLC, a Puerto Rico limited liability company ("LegalSimpli"), 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 LegalSimpli'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 LegalSimpli'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. As of December 31, 2018, while the Company does not anticipate LegalSimpli meeting the above milestones, the Company anticipates that it is probable that the Company will pay the total $200,000 consideration to the Sellers for these milestones. Regardless of whether LegalSimpli achieves either or both of the Milestones, the Buyer will retain full ownership of the Membership Interests. In addition, the Purchase Agreement calls for an additional $400,000 of consideration to be paid to the Sellers if/when Conversion Labs PR or the Company ever pay a dividend to shareholders. The Company has determined that it is probable that at some future point that the Company will pay this additional $400,000 to the Sellers.

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
Additional consideration to be paid		200,000
Contingent consideration		400,000
Fair value of total consideration	$	750,000
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)
Deferred revenue		(29,818)
Non-controlling interest		(144,118)
Total identifiable net assets		(256,840)
Customer relationship asset		1,006,840
	$	750,000

NOTE 5 – INTANGIBLE ASSETS

As of September 30, 2019 the Company has the following amounts related to intangible assets:

	Gross Carrying Amount	Accumulated Amortization
Amortizable of intangible assets		
Customer relationship asset	$ 1,006,840	$ (447,484)
Indefinite lived intangible assets		
Purchased licenses	200,000	—
	$ 1,206,840	$ (447,484)

For the three months ended September 30, 2019, the Company recognized amortization expense of approximately $162,009.

As of December 31, 2018 the Company has the following amounts related to intangible assets:

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets		
Customer relationship asset	$ 1,006,840	$ (195,775)
Indefinite lived intangible assets		
Purchased licenses	200,000	—
	$ 1,206,840	$ (195,775)

NOTE 6 – NOTES PAYABLE

The following table outlines the Company's notes payable as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Convertible notes in the principal aggregate amount of $450,000 issued in May of 2018. These notes have a maturity date of May 28, 2019 and 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. The borrowers have converted $344,642 of these notes including $9,922 of interest as of September 30, 2019 and December 31, 2018.	$ 170,280	$ 215,280
Promissory note in the principal aggregate amount of $230,000 issued in October of 2018. This note has a maturity date of April 1, 2019 and bears no interest. The Company has recorded $0 and $12,000 as accrued interest as of June 30, 2018 and December 31, 2018, respectively. This note was repaid on April 1, 2019.	—	200,000
The Company issued convertible notes in the principal aggregate amount of $1,291,000 in August of 2019 to three accredited investors. These notes have a maturity date of August 15, 2020 and accrue interest at 12% per annum. The conversion price for these notes is $0.23 per share of common stock, subject to quarterly adjustment pursuant to the terms therein.	1,291,500	—
Related party promissory note of $106,000 issued in December of 2018. This note has a maturity date of March 1, 2019 and bears no interest, but requires an additional $6,000 from the original $100,000 received. The Company has recorded $9,000 as accrued interest as of March 31, 2018.	—	50,000
Warrants to purchase up to 2,391,305 shares of common stock with an exercise price of $0.28 per share. The fair value of the warrants was determined to be $533,691 and was recorded as a debt discount to be amortized over the life of the note.	—	(217,864)
The Company issued convertible notes in the principal aggregate amount of $1,291,000 in August of 2019 to three investors at a 20% discount to the convertible note amount which resulted in a discount of $215,250. In conjunction with the convertible notes, the Company issued warrants to purchase up to 4,612,500 shares of common stock with an exercise price of $0.28 per share. The fair value of the warrants was determined to be $569,147. The Company paid debt issuance costs paid $61,583 in connection with the new note financing on August 15, 2019. For the three months ended September 30, 2019, the Company recognized amortization of $106,584.	(739,133)	—
Total Net Debt	$ 722,647	$ 247,416

NOTE 7 – STOCKHOLDERS' EQUITY

Common Stock

In February 2018, in connection with the sale of the Company's legacy yeast beta glucan assets, 2,000,000 shares of common stock belonging to the Company's Former CEO, Mr. McLaughlin, were cancelled.

In March 2018, the Company issued 500,000 shares of common stock valued at $120,000 to a consultant. 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 as the Company's Chief Executive Officer.

In May 2018, the Company issued 200,000 shares of common stock valued at $56,000 to a consultant for services over a three month term. The Company is recognizing the expense at the time of issuance.

On January 1, 2019, in connection with the Company's agreement with JLS Ventures, LLC, the Company issued 1,000,000 shares of restricted stock to JLS Ventures, LLC, an entity owned by our Chief Executive Officer. The stock was issued for services and was the only compensation that Mr. Shreiber received during the nine months ended September 30, 2019.

On February 27, 2019, the Company entered into a short-term note agreement for $100,000 that was repaid prior to the quarter end. As part of the note agreement, the Company issued 100,000 shares of common stock to the note holder valued at $16,000.

During the year ended December 31, 2018, certain convertible note holders were issued 1,498,442 shares at a conversion price of $0.23 per share in connection with the conversion of $344,641 of principal and interest of their notes, resulting in a decrease to the aggregate amount of outstanding convertible debt of approximately $344,641 during the year.

During the nine months ended September 30, 2019, the Company issued 1,521,344 shares of common stock to various third-party investors, the Company received $350,001 in cash for these shares. In conjunction with one of the stock purchases, the Company issued warrants valued at $20,825 which based on the terms of the warrants, the Company has bifurcated and treated as equity. In addition to the above stock issued, the Company has issued 100,000 shares of common stock to a consultant for services rendered; which were valued at $16,000.

Noncontrolling Interest

For the three and nine months ended September 30, 2019, the net (loss) income from non-controlling interests attributed the Company amounted to approximately ($161,000) and $(376,000), respectively. For the three and nine months ended September 30, 2018, the net (loss) income from non-controlling interests attributed the Company amounted to approximately ($36,000) and ($66,000), respectively.

On May 29, 2018, Conversion Labs PR acquired a 51% interest in LegalSimpli, which operates a marketing-driven software solutions business.

On April 25, 2019, the Company entered into an membership purchase agreement with entities owned by the Company's Chief Executive officer and Chief Technology Officer, Conversion Labs PR, whereby the Company acquired the remaining 21.8% interest of Conversion Labs PR from the Company's Chief Executive officer and Chief Technology Officer. As such, the Company now wholly-owns 100% of Conversion labs PR. In order to consummate this transaction, the Company agreed to issue 5 million shares of common stock based on the issuance price of $0.18 per share, or for a total of $900,000 to the Company's Chief Executive officer and Chief Technology Officer. The shares were not issued until August 6, 2019, and, as such, the Company has recorded a liability on the Company's balance sheet as of September 30, 2019.

On May 31, 2019, the Company entered into the operating agreement of CVLB Rx, by and among the Company, Conversion Labs PR, Harborside Advisors, LLC, Happy Walters, an individual ("Walters"), and David Hanig, an individual ("Hanig", and together with Conversion Labs PR, Harborside and Walters, each a "Member" and together the "Members"). Pursuant to the Operating Agreement, the Company, through Conversion Labs PR, owns 51% of the membership interests of CVLB Rx. The Operating Agreement governs the operations of CVLB Rx and provides for CVLB Rx's management by a Board of Managers of at least three members. Among the provisions of the Operating Agreement are limitations and restrictions on the disposition of membership interests by a Member, including right of first refusal of the Members and an option for both the Company and the Members to purchase membership interests that are being offered by a Member.

Stock Options

The following is a summary of outstanding service-based options at September 30, 2019:

	Options Outstanding Number of Shares	Exercise Price per Share	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
Balance at December 31, 2018	13,820,000	$ 0.20 - 0.40	4.59 years	$ 0.26
Granted	500,000	$ 0.23	9.45 years	0.23
Cancelled	(25,000)	$ 0.40	8.01 years	0.40
Expired	—	—	—	—
Balance at September 30, 2019	14,295,000	$ 0.20 - 0.40	4.75 years	$ 0.26
Exercisable December 31, 2018	10,805,416	$ 0.20 - 0.40	3.63 years	$ 0.24
Exercisable September 30, 2019	11,467,916	$ 0.20 - 0.40	3.89 years	$ 0.25

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 September 30, 2019 and December 31, 2018 amounted to $0 and $0, respectively.

On February 9, 2019, Robert Kalkstein, the former Chief Financial Officer of the Company, tendered his resignation to the Company's Board of Directors, effective March 31, 2019. In connection with Mr. Kalkstein's resignation, the Company agreed to amend certain options granted to Mr. Kalkstein by decreasing the exercise price of 500,000 options for the Company's common stock previously granted to Mr. Kalkstein from $0.40 per share to $0.28 per share; accelerate the vesting of 150,000 Options with such options to vest on March 31, 2019; and cancel 200,000 unvested options, the vesting of which was not accelerated. The Company determined that the additional compensation expense for this transaction was approximately $3,000, which was recognized in March of 2019.

On March 15, 2019 the Company granted Mr. Piñeiro, the Chief Financial Officer of the Company, options to purchase 500,000 shares of the Company's common stock at an exercise price of $0.23. The Company valued the estimated compensation expense for these options as approximately $73,000, using a Black-Scholes option-pricing model as follows:

Significant assumptions:	
Risk-free interest rate at grant date	2.38%
Expected stock price volatility	184.78%
Expected dividend payout	—
Expected option life-years	6.5 years
Weighted average grant date fair value	$ 0.15
Forfeiture rate	0%

Performance-Based Stock Options

The following is a summary of outstanding performance-based options at September 30, 2019:

	Options Outstanding Number of Shares	Exercise Price per Share	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
Balance at December 31, 2018	15,425,000	$ 0.25 - 0.40	5.46 years	$ 0.27
Granted	—	—	—	—
Cancelled	(8,600,000)	0.25 - 0.40	7.32 years	0.31
Expired	—	—	—	—
Balance at September 30, 2019	6,825,000	$ 0.25 - 0.40	3.11 years	$ 0.23
Exercisable December 31, 2018	3,175,000	$ 0.25 - 0.40	2.63 years	$ 0.40
Exercisable September 30, 2019	3,175,000	$ 0.25 - 0.40	2.63 years	$ 0.40

Vested

During 2017, the Company granted performance-based options to purchase 250,000 shares of common stock at an exercise price of $0.40 per share. These options expire in 2027 and are vested upon the Company achieving annual sales revenue of $5,000,000. These options are valued at $55,439. During 2017, the Company met the performance criteria.

Unvested

During 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 to JLS Ventures, LLC, a related party. The options expire in 10 years and become exercisable upon cash received by Conversion Labs, Inc. from Conversion Labs PR between $4,000,000 and $7,000,000. The aggregate fair value of these performance-based options is $1,688,212. On April 25, 2019, concurrent with the Company's purchase of the remaining 21.8% interest of Conversion Labs PR, these options were cancelled.

In the third quarter of 2017, the Company granted performance-based options to purchase 3,750,000 shares of common stock with an exercise prices of $0.25 and $0.35 per share. The options expire in 10 years and become 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 $1,152,849. As of February 2018, 2,000,000 of these options had been cancelled.

Warrants

The following is a summary of outstanding and exercisable warrants:

	Warrants Outstanding Number of Shares	Exercise Price per Share	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
Balance at December 31, 2018	5,225,533	$ 0.20 - 0.50	2.99 years	$ 0.35
Granted	6,133,844	$ 0.28	9.84 years	0.28
Exercised	—	—	—	—
Expired	—	—	—	—
Balance at September 30, 2019	11,359,377	$ 0.20 - 0.50	6.69 years	$ 0.34
Exercisable December 31, 2018	5,225,533	$ 0.20 - 0.50	2.99 years	$ 0.31
Exercisable September 30, 2019	10,363,000	$ 0.20 - 0.50	6.41 years	$ 0.35

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

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

In May 2019, the Company issued 1,086,957 warrants to purchase shares of common stock with an exercise price of $0.28 to Bertrand Velge, a board member. The warrants will vest monthly over a four year period and expire in five years.

On August 15, 2019, the Company entered into securities purchase agreements with three accredited investors (each an "Investor," collectively, the "Investors"). Pursuant to the terms of the Purchase Agreements, the Company issued and sold to the Investors convertible promissory notes for the aggregate original principal amount of $1,291,500 (the "Notes"), and warrants to purchase up to 4,679,348 shares of the Company's common stock (the "Warrants,"). The Warrants are immediately exercisable and have a term of ten years. The Warrants are exercisable at a price per share of $0.28, subject to adjustment as described herein and contain a cashless exercise mechanism.

Stock Based Compensation

The total stock-based compensation expense related to Service-Based Stock Options, Performance-Based Stock Options and Warrants issued for service approximated $167,000 and $540,000 for the three and nine months ended September 30, 2019, respectively. The total stock-based compensation expense related to Service-Based Stock Options, Performance-Based Stock Options and Warrants issued for service approximated $172,000 and $512,000 for the three and nine months ended September 30, 2018, respectively. Such amounts are included in compensation and related expenses in the consolidated statement of operations.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Royalty Agreements

Pilaris Laboratories, LLC

On September 1, 2016, Conversion Labs 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 Conversion Labs 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, Conversion Labs 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, 2018, 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 September 30, 2019 and December 31, 2018, the Company has accrued $10,000 and $0, respectively, which is included in accounts payable and accrued expenses in regard to this agreement.

M.ALPHABET, LLC

On March 26, 2018, the Company entered into a license agreement (the “Alphabet Agreement”) with M.ALPHABET, LLC (“Alphabet”), pursuant to which Alphabet agreed to license its PURPUREX business which consists of methods and compositions for the treatment of purpura, bruising, post-procedural bruising and traumatic bruising (the “Product Line”). Pursuant to the license granted under the Alphabet Agreement, Conversion Labs PR obtained 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 Alphabet Agreement) realized from the sales of Licensed Products. Further, so long as the Alphabet Agreement is not previously terminated, the Company, also agreed to pay Alphabet $50,000 on the 120-day anniversary of the Alphabet Agreement and an additional $50,000 on the 360-day anniversary of the Agreement.

Upon execution of the Alphabet Agreement, Alphabet was 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 an additional 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 an additional 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 an additional 200,000 shares of the Company’s common stock at an exercise price of $0.75.

Milestone-based Royalty Agreement

The Company is subject to a royalty agreement based upon sales of certain hair care products, namely the owners of the Shapiro MD product line. For the three and nine months ended September 30, 2019, the Company recognized approximately $26,000 and $76,000, respectively, in royalty expense related to this agreement. For the three and nine months ended September 30, 2018, the Company recognized approximately $28,500 and $67,000, respectively, in royalty expense related to this agreement. These amounts are included in the Company’s accompanying statement of operations as general and administrative expenses.

Restricted Stock and Options

The Company has entered into two agreements on April 1, 2016 with two consultants of Conversion Labs PR for business development, marketing and sales related services (the “Consultant Agreements”). Upon signing, each consultant was issued 1,000,000 restricted shares of the Company’s common stock. In addition, each consultant received an additional 150,000 restricted shares of the Company’s common stock. The Company valued the shares of common stock 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 Consultant 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 a price of $0.20 per share (including a cashless exercise feature) when Conversion Labs 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 a price of $0.20 per share. As of September 30, 2019, no bonus shares had been issued, and no options have been granted pursuant to the Consultant Agreements. On April 25, 2019, concurrent with the Company’s purchase of the remaining 21.8% interest of Conversion Labs PR, these options were cancelled.

Legal Matters

In the normal course of business operations, the Company may become involved in various legal matters. At September 30, 2019, 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.

NOTE 9 – LEASES

On January 1, 2019, we adopted ASU 2016-02 using the optional transition method resulting in a cumulative-effect adjustment to our Consolidated Balance Sheets. Comparative financial statements of prior periods have not been adjusted to apply the new method retrospectively. The new method of accounting was applied only to leases that have ongoing minimum lease commitments after January 1, 2019, excluding short-term leases.

The Company has applied the practical expedient for leases less than 12-months for the following lease, and as such has excluded it from the calculation of right of use assets and lease liabilities. Conversion Labs PR utilizes office space in Puerto Rico which is subleased from Mr. Schreiber (the Company's President and CEO) and incurs expense of approximately $5,000 per month for this office space.

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 rent is payable on a monthly basis in the amount of $2,106 for the first twelve months, $2,149 for the second twelve months and $2,235 for the third twelve months. The Company has recognized a right of use asset and lease liability of $30,287 as of January 1, 2019 for adopting ASC 842, and has classified this lease as an operating lease. The lease did not contain any interest for use in the present value calculation, as a result, the Company used the third-party interest rate from similar borrowings of 7%. The Company has paid a security deposit of $2,235 was paid for this lease. The lease payments for this lease were $6,382, and the implied interest for such lease was $4,241.

Rent expense, including short-term lease, for the three and nine months ended September 30, 2019, was approximately $8,000 and $95,000, respectively. Rent expense, including short-term lease, for the three and nine months ended September 30, 2018, was approximately $4,000 and $49,000, respectively. These amounts are included in the Company's accompanying statement of operations as general and administrative expenses.

NOTE 10 – RELATED PARTY TRANSACTIONS

Other

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 and CEO, employment of the Company's former President and CEO's wife, and legal and business advisory services provided by one of the Company's directors.

Chief Executive Officer

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. In July 2017, the Company and JLS Ventures, an entity owned by the Company's current Chief Executive Officer, entered into a second amendment to a Service Agreement effective July 1, 2017. As compensation and in lieu of any cash compensation, the Company issued 900,000 shares of common stock valued at $432,000. The Company recognized the expense over the term of the agreement. In May 2018, the Company entered into a two year agreement with Mr. Schreiber to compensate him for his service as CEO for the 2018 and 2019 calendar year. In lieu of any cash compensation for serving as CEO of the Company in 2018 and 2019, the Company agreed to issue 1,000,000 shares of common stock per year and is recognizing the expense over the term of the agreement.

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

On November 20, 2017, the Company entered into an agreement (the “JOJ Agreement”) with JOJ Holdings, LLC (“JOJ”). Pursuant to the terms of the Agreement, Conversion Labs, Inc. (“Conversion Labs”) 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 JOJ Agreement was amended on December 8, 2017 and again on March 9, 2018. In consideration for the purchase, Conversion Labs agreed to issue one (1) share of Conversion Labs common stock to JOJ for every dollar Conversion Labs realizes from gross proceeds on the sale of shares of BCII purchased pursuant to the JOJ 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.

Conversion Labs PR utilizes office space in Puerto Rico which is subleased from Mr. Schreiber (President and CEO) incurs expense of approximately $5,000 a month on month-to-month terms for this office space.

Conversion Labs PR utilizes BV Global Fulfillment, owned by a related party of the Company’s current Chief Executive Officer for fulfillment services. The Company pays a monthly fee of $13,000 to $16,000 per month and reimburses BV Global Fulfillment for their costs associated with shipping the Company’s products. The Company incurred approximately $279,000 and $225,000 for the three months ended September 30, 2019 and 2018, respectively, for these services. The Company incurred approximately $771,000 and $485,000 for the nine months ended September 30, 2019 and 2018, respectively, for these services.

NOTE 11 – SUBSEQUENT EVENTS

The Company has evaluated and determined that there are no subsequent events through the date these financial statements were issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of 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") that reflect management's current views with respect to future events and financial performance. These statements are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by the Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used herein, the words "anticipate," "believe," "estimate," "expect," "forecast," "future," "intend," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue" or the negative of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company's business, industry, and the Company's operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report. 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. These risks include, by way of example and without limitation:

- our ability to successfully commercialize our products and services on a large enough scale to generate profitable operations;
- our ability to maintain and develop relationships with customers and suppliers;
- our ability to successfully integrate acquired businesses or new brands;
- the impact of competitive products and pricing;
- supply constraints or difficulties;
- general economic and business conditions;
- our ability to continue as a going concern;
- our need to raise additional funds in the future;
- our ability to successfully recruit and retain qualified personnel;
- our ability to successfully implement our business plan;
- our ability to successfully acquire, develop or commercialize new products and equipment;
- intellectual property claims brought by third parties; and

- the impact of any industry regulation.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or performance. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission ("SEC"). We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions.

As used in this Quarterly Report on Form 10-Q and unless otherwise indicated, the terms "Company," "we," "us," and "our" refer to Conversion Labs, Inc. (formerly known as Immudyne, Inc.) and our majority-owned subsidiaries LegalSimpli Software, LLC, a Puerto Rico limited liability company ("LegalSimpli"), Conversion Labs PR, LLC (formerly Immudyne PR LLC, now "Conversion Labs PR"), a Puerto Rico limited liability company ("Conversion Labs PR"), Conversion Labs Media, LLC ("CVLB Media"), a Puerto Rico limited liability company, Conversion Labs Rx, LLC ("CVLB Rx"), a Puerto Rico limited liability company, and Conversion Labs Asia Limited, a Hong Kong company ("Conversion Labs Asia"). Unless otherwise specified, all dollar amounts are expressed in United States dollars.

Corporate History and Overview

Conversion Labs, Inc. is a diversified online direct-to-consumer marketing and telemedicine company with a portfolio of health and wellness brands. Our products are marketed and sold directly to consumers through advertisements on Facebook, Google, Amazon, and other social media and e-commerce platforms. Secondarily, we also sell our products to traditional retailers, wholesalers and physicians' offices. After the establishment of a joint venture with GoGoMeds.com, through our majority-owned subsidiary CVLB Rx, in June 2019, we now market branded and generic prescription drugs that are then sold and shipped (via GoGoMeds) online directly to consumers in all 50 states and the District of Columbia. We have also established relationships with independent physicians in 39 states that provide virtual consultations to patients that respond to our online advertisements. We operate our business using a proprietary telehealth technology platform that facilitates a compliant relationship between the patient, provider and pharmacy.

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. We entered into a limited liability company operating agreement with our 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 78.2%. Concurrent with the name change of the parent company to Conversion Labs, Inc. completed in 2018, Immudyne PR was renamed to Conversion Labs PR LLC (now known as "Conversion Labs PR"). On April 1, 2016, the original operating agreement of Conversion Labs PR was amended and restated and we increased our ownership and voting interest in Conversion Labs PR to 78.2%. On April 25, 2019, the operating agreement of Conversion Labs PR was amended and restated in its entirety to increase the Company's ownership and voting interest in Conversion Labs PR to 100%.

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 advertising expenses and service fees to retain skilled professionals to market our products through the internet. 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.

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 executives and directors.

Our Products

Shapiro MD

Launched in 2017, Shapiro MD is a brand with a portfolio of over-the-counter and prescription products for hair loss for both men and women. Shapiro MD's product portfolio began with a patented hair loss product line consisting of a shampoo, conditioner and leave-in foamer for thicker, fuller hair. Shapiro MD's product offering has now grown to include a U.S. Food and Drug Administration ("FDA") approved minoxidil product and an over-the-counter supplement for hair loss. We intend to continue adding clinically studied hair loss products to Shapiro MD's offerings such as finasteride for men and compounded prescription products for both men and women. We believe that Shapiro MD offers one of the most robust portfolio of clinically studied over the counter products and FDA approved drugs for both male and female hair loss.

iNR Wellness MD

Launched in 2018, iNR Wellness MD is a nutritional supplement for immune and gut support. The iNR Wellness product line is a daily nutritional supplement that contains yeast, oat, and mushroom beta glucans. Beta glucans, or β-Glucans, are a natural extract considered to be "biological response modifiers" that support the immune system. Our three naturally occurring beta glucans have clinically shown to support the human immune system and are commonly used as an OTC supplement to reduce cholesterol levels, maintain healthy blood glucose levels, and support the immune system. Our spokespersons for our iNR Wellness MD brand include Dr. Joseph DiTrolio, a member of the Board of Directors of the Company, Dr. Jack Gilbert, and Dr. Liz Lipski, who are leading doctors/researchers in fields such as urology, microbiology, and nutrition. General scientific research on beta glucans has been conducted in recent years by renowned medical laboratories, including Baylor College of Medicine, U.S. Armed Forces Radiobiology Institute, Stanford University, Harvard University, and North Carolina State University. As more studies are conducted on beta glucans, we believe the potential benefits to human health will continue to gain recognition. Although the Food and Drug Administration ("FDA") has historically endorsed the consumption of oat glucan/dietary fiber as an aid to lower cholesterol, most of the testing and analysis or scientific research mentioned herein has not been subject to oversight of the FDA or any comparable regulatory body, and no regulatory body has attested to the efficacy of beta glucans in supporting the immune system or treating disease. Further, the marketing of beta glucans is not subject to FDA approval, and we are prohibited by Federal Trade Commission ("FTC") and FDA regulations from suggesting in advertisements and product labels that our products mitigate, treat, cure or prevent a specific disease or class of disease.

RexMD

Launched in 2019, RexMD is a mens health brand initially offering personalized treatment plans from licensed physicians in 39 states for erectile dysfunction. After consultiation with a physician, if appropriate, we dispense and ship prescription medication directly to patients. We are initially focused on generic Viagra and Cialis but intend to expand our product offering to include treatment for hair loss, cold sores, genital herpes, mental health, and other common medical conditions for men.

PDF Simpli

Launched in 2018, PDF Simpli is a PDF conversion software product, 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. PDFSimpli enables users to convert, edit and sign PDF documents. As of October 31, 2019, PDFSimpli was ranked in the top 12,000 websites globally, in which it was also ranked in the top 1,200 for specific countries with more than 2.4M registered users globally. Since its launch, PDFSimpli has converted or edited over 3 terabytes of documents for customers from the legal, financial, real-estate and academic sectors. PDFSimpli has over 21,000 active subscriptions as of October 31, 2019.

Divestiture of Nutraceutical and Cosmetic Additives Business

Prior to 2018, 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 the first quarter of 2018 we sold all assets and 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 through our majority-owned operating subsidiary, Conversion Labs PR.

Growth Strategy

We actively seek to acquire, license and develop products and brands with large untapped e-commerce potential and proven business models. We intend to continue to grow revenue and profitability of our four commercial stage consumer and telehealth brands. We also expect that PDFSimpli will continue to grow and will achieve profitability in 2019. We continue to actively seek new brands to buy or license to expand our product offerings and add to our growth.

We have begun selling all of our products in international markets and we believe this represents a significant growth opportunity for us. We also entered into a strategic partnership in Asia in 2018. We are in the process of building an e-commerce infrastructure in Asia and are continuing to explore how to expand our market share in that region.

In early 2019, we also launched a service-based business under the name Conversion Labs Media LLC, which was to be used to run e-commerce marketing campaigns for other online businesses. However, this business was discontinued in 2019 in order to focus on our core business as well the expansion of our telehealth opportunities.

Results of Operations

Comparison of the Three Months Ended September 30, 2019 to the Three Months Ended September 30, 2018

Revenue and Operating Expenses

Our revenue, operating expenses and net loss for the three months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	$	**% of Sales**	**$**	**% of Sales**
Net sales	3,126,727		2,037,636	
Cost of sales	680,081	22%	534,727	26%
Gross profit	2,446,646	78%	1,502,909	74%
Operating expenses	3,420,352	109%	2,441,358	120%
Operating (loss)	(973,706)	(0)	(938,449)	(0)
Other income (expenses)	(130,936)	-4%	(147,664)	-7%
Net income (loss)	(1,104,642)	-35%	(1,086,113)	-53%
Net (loss) income attributable to noncontrolling interests	(160,838)	-5%	(37,318)	-2%
Net (loss) income attributable to Conversion Labs, Inc.	(943,804)	-30%	(1,048,795)	-51%

Net Sales

Sales were approximately $3.1 million for the three months ended September 30, 2019, compared to approximately $2.0 million for the three months ended September 30, 2018. This is an increase of approximately $1.0 million or 53% which can primarily be attributed to the Company's purchase of LegalSimpli's accretive revenue stream and to an increase in the Company's revenue for haircare and skincare products.

Cost of Sales

Total cost of sales was approximately $680,000 for the three months ended September 30, 2019, compared to approximately $534,000 for the three months ended September 30, 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 is 22% for the three months ended September 30, 2019, as compared to 26% for the three months ended September 30, 2018. The increase of approximately $145,000, or 27%, is a result of the increase in sales of 53% and due to the Company's 2018 purchase of LegalSimpli which has a higher margin than the Company's legacy sales channels.

Gross Profit

Gross profit was approximately $2.5 million for the three months ended September 30, 2019, compared to approximately $1.5 million for the three months ended September 30, 2019, an increase of approximately $940,000 or 63%. The increase in our gross profit was primarily the result of the increased sales of our in-licensed Shapiro MD hair loss product line and due to the increased margin of the Company's LegalSimpli software revenue stream.

Operating Expenses

Total operating expenses increased approximately 40% to approximately $3.4 million for the three months ended September 30, 2019, from approximately $2.4 million for the three months ended September 30, 2018. The increase in our operating expenses between the periods was mostly attributable to our increased social media marketing efforts for our in-licensed patented hair loss shampoo, conditioner and leave-in foam. This increase in marketing expenses was $660,000 or 47% when comparing the three months ended September 30, 2019 to the three months ended September 30, 2018. We also had increased compensation and related expense costs or 42% and increased general and administrative expense of 42% when comparing the three months ended September 30, 2019 to the three months ended September 30, 2018.

Net Loss

Net loss for the three months ended September 30, 2019 was approximately $1.1 million, compared to net loss of approximately $1.1 million for the three months ended September 30, 2018. Our net loss for the three months ended September 30, 2019 can be most attributed to our increased marketing efforts.

Comparison of the Nine Months Ended September 30, 2019 to the Nine Months Ended September 30, 2018

Revenue and Operating Expenses

Our revenue, operating expenses and net loss for the Nine months ended September 30, 2019 and 2018 are summarized as follows:

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	$	**% of Sales**	**$**	**% of Sales**
Net sales	8,524,124		6,139,551	
Cost of sales	2,013,265	24%	1,329,881	22%
Gross profit	6,510,859	76%	4,809,670	78%
Operating expenses	8,881,099	104%	6,072,112	99%
Operating (loss)	(2,370,240)	(0)	(1,262,442)	(0)
Other income (expenses)	(430,956)	-5%	(205,192)	-3%
Income from continuing operations	(2,801,196)	-33%	(1,467,634)	-24%
Income from discontinued operations, including gain on sale, net of income taxes	—	0%	925,738	15%
Net income (loss)	(2,801,196)	(0)	(541,896)	(0)
Net (loss) income attributable to noncontrolling interests	(375,540)	-4%	(66,160)	-1%
Net (loss) income attributable to Conversion Labs, Inc.	(2,425,656)	-28%	(475,736)	-8%

Net Sales

Sales were approximately $8.5 million for the nine months ended September 30, 2019, compared to approximately $6.2 million for the three months ended September 30, 2018. This is an increase of approximately $2.4 million or 39% which can primarily be attributed to the Company’s purchase of LegalSimpli’s accretive revenue stream and to a $1.7 million increase in the Company’s revenue for haircare and skincare products.

Cost of Sales

Total cost of sales was approximately $2.0 million for the nine months ended September 30, 2019, compared to approximately $1.3 million for the nine months ended September 30, 2018. Cost of sales consists primarily of material costs and related overhead directly attributable to the production of our products. Cost of Sales increased by $683,000 or 51% which is a result of the increased sales.

Gross Profit

Gross profit was approximately $6.5 million for the nine months ended September 30, 2019, compared to approximately $4.8 million for the nine months ended September 30, 2018, an increase of approximately 35%. The increase in our gross profit was primarily the 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 46% to approximately $8.8 million for the nine months ended September 30, 2019, from approximately $6.1 million for the nine months ended September 30, 2018. The increase in our operating expenses between the periods was mostly attributable to our increased social media marketing efforts for our in-licensed patented hair loss shampoo, conditioner and leave-in foam, which increased approximately $1.7 million over from the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The total increase in marketing expenses was $2.0 million or 56% when comparing the nine months ended September 30, 2019 to the nine months ended September 30, 2018. We also had increased compensation and related expense costs or 69% and increased general and administrative expense of 50% when comparing the nine months ended September 30, 2019 to the nine months ended September 30, 2018.

Net Loss

Net loss for the nine months ended September 30, 2019 was approximately $2.8 million, compared to net loss of approximately $541,000 for the nine months ended September 30, 2018. Our net loss for the nine months ended September 30, 2019 was mostly attributable to our increased marketing efforts, whereas our low net loss for the nine months ended September 30, 2018 was mostly attributable to the sale of the Company's legacy business.

Liquidity and Capital Resources

Working Capital

The following table sets forth a summary of working capital as of September 30, 2018 and December 31, 2018:

	September 30, 2019	**December 31, 2018**
Current assets	$ 1,761,434	$ 1,605,070
Current liabilities	2,984,176	1,192,397
Working capital	$ (1,222,742)	$ 412,673

We had a negative net working deficit of $1,222,742 at September 30, 2019, resulting in a decrease of $1,635,415 in working capital from net working capital of $412,673 at December 31, 2018. The ratio of current assets to current liabilities was 0.59 to 1 at September 30, 2019.

Cash Flows

The following table sets forth a summary of changes in cash flows for the Nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,	
	2019	**2018**
Net cash provided by (used in) operating activities	$ 92,496	$ (489,201)
Net cash (used in) provided by investing activities	(500,000)	241,445
Net cash used in financing activities	1,008,303	513,649
Change in cash	$ 600,799	$ 265,893

Operating Activities

Net cash provided by operating activities was approximately $92,496 for the nine months ended September 30, 2019 primarily due to increases in accounts payable and accrued expenses of $1.2 million, stock compensation expense of approximately $540,000, amortization of debt discount of approximately $324,000, amortization of intangibles of approximately $251,000 and decreases in inventory of approximately $275,000.

Net cash used in operating activities was approximately $489,201 for the nine months ended September 30, 2018. Cash from operating activities during the nine months ended September 30, 2019 was primarily due to the net loss of approximately $541,000, gain on sale of legacy business of approximately $918,000 which was offset by stock compensation expense of approximately $458,000.

Investing Activities

For the nine months ended September 30, 2019, net cash used in investing activities was $500,000 for payments related to the contingent consideration for the purchase of LegalSimpli.

For the Nine months ended September 30, 2018, net cash provided by investing activities was approximately $241,000 for proceeds related to the sale of the legacy business offset by the cash outlaw related to the purchase of LegalSimpli.

Financing Activities

For the nine months ended September 30, 2019, net cash provided by financing activities was approximately $1.0 million of which consisted of $1.1 million was received from the issuance of convertible notes, offset by payments to a convertible note holder of $345,000.

For the nine months ended September 30, 2018, net cash provided by financing activities was approximately $513,000 which related to the cash received for convertible notes payable.

Going Concern and Future Financing

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 2019 as well as in the 2018 fiscal year. As a result, we have substantial doubt about our ability to continue as a going concern.

We will require additional funds to implement our growth strategy for our business. In addition, while we have received capital from various private placements and convertible loans that have enabled us to fund our operations, these funds have been largely used to supplement our working capital, although additional funds are needed for other corporate operational and working capital purposes. At this time and at our current burn rate, we have sufficient capital to fund our operations through the balance of this fiscal year. At this time, we have not determined the amount that may be needed. These funds may be raised through equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis should it be required, or generate significant material revenues from operations, we will not be able to meet our other obligations as they become due and we will be forced to scale down or perhaps even cease our operations.

Equity Financings

On February 27, 2019, the Company entered into short-term note agreement for $100,000 that was repaid prior to the end of this quarter. As part of the note agreement, the Company issued 100,000 restricted shares of common stock to the note holder valued at $16,000.

Debt Financings

On August 15, 2019, the Company entered into securities purchase agreements with three accredited investors (the “Investors”). Pursuant to the terms of the Purchase Agreements, the Company issued and sold to the Investors convertible promissory notes (the “Notes”) for the aggregate original principal amount of $1,291,500 and issued warrants (the “Warrants”) to purchase up to 4,679,348 shares of the Company’s common stock. The Warrants are immediately exercisable and have a term of ten years. The Warrants are exercisable at a price per share of $0.28, subject to adjustment as described herein and contain a cashless exercise mechanism.

The Notes mature on the first anniversary of the Closing Date (the “Maturity Date”) and accrue interest at a rate of twelve percent (12%) per annum, subject to adjustments.

The Notes may be converted into shares of the Company’s common stock, at the discretion of the holder, at any time following issuance, unless the conversion or share issuance under the conversion would cause the holder to beneficially own shares in excess of 4.99% of the Company’s common stock. The conversion price for the principal and interest, if any, in connection with voluntary conversion by the Investors shall be $0.23 per share of common stock, subject to adjustment (the “Conversion Price”). In the event the average VWAP (as defined in the Note) for the consecutive ten (10) Trading Days (as defined in the Note) preceding but not including either or both of the ninety (90) day and one hundred and eighty (180) day anniversary of the Closing Date is less than the then Conversion Price in effect either or both on such ninety (90) day and one hundred and eighty (180) day anniversary date, then the Conversion Price with respect to unconverted principal and interest on the Note shall be reduced (and only reduced) to eighty percent (80%) of the VWAP for the ten (10) Trading Days following (but not including) such ninety (90) day and one hundred and eighty (180) day anniversary date, subject to further reduction.

The Notes contain standard event of default provisions, certain covenants and restrictions, including, among others, that, for so long as the Notes are outstanding, the Company will not incur any indebtedness, permit liens on its properties (other than permitted indebtedness or permitted liens under the Notes), make dividends or transfer certain assets.

Liquidity and Capital Resources Outlook

The Company has funded operations in the past through the sales of its products, issuance of common stock, and debt securities 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 and/or debt securities.

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 September 30, 2019, the Company has an accumulated deficit approximating $15.9 million and a working capital deficit of approximately $1,222,000. 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 September 30, 2019, and projected cash needs for the remainder of 2019, management estimates that it will need to increase sales revenue and/or raise additional capital to cover operating and capital requirements for the 2019 year and beyond. 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.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenues or operating results during the periods presented.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in the notes to our financial statements included herein for the quarter ended September 30, 2019 and in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on April 1, 2019.

Recently Issued Accounting Pronouncements

Any recently issued accounting pronouncements are more fully described in Note 1 to our financial statements included herein for the quarter ended September 30, 2019.

Recently Adopted Accounting Standards

Aside from the below, our recently adopted accounting pronouncements are more fully described in Note 2 to our financial statements included herein for the quarter ended September 30, 2019.

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). The standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company adopted ASU 2016-02 on January 1, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our principal executive officer and principal financial officer concluded that, our disclosure controls and procedures were not effective due to the following material weakness(es) in internal control over financial reporting described below.

- Lack of a functioning audit committee and a lack of a majority of outside directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures;
- Inadequate segregation of duties consistent with control objectives;
- Insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC Guidelines;
- Inadequate security and restricted access to computer systems including a disaster recovery plan;
- Lack of formal written policy for the approval, identification and authorization of related party transactions; and
- No written whistleblower policy.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2019 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations, except as set forth below. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a number of very significant risks. You should carefully consider the risk factors included in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018 (the "Annual Report"), as filed with the SEC on April 1, 2019, in addition to other information contained in those documents and reports that we have filed with the SEC pursuant to the Securities Act and the Exchange Act since the date of the filing of the Annual Report, including, without limitation, this Quarterly Report on Form 10-Q, in evaluating our company and its business before purchasing shares of our common stock. Our business, operating results and financial condition could be adversely affected due to any of those risks.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following paragraphs set forth certain information with respect to all securities sold by the Company during the three months ended September 30, 2019 without registration under the Securities Act:

During the nine months ended September 30, 2019, the Company issued 1,521,344 shares of common stock to various third-party investors, the Company received $350,001 in cash for these shares. In conjunction with one of the stock purchases, the Company issued warrants valued at $20,825 which based on the terms of the warrants, the Company has bifurcated and treated as equity.

In addition to the above stock issued, the Company has issued 100,000 shares of common stock to a consultant for services rendered; which were valued at $16,000.

The above transactions did not involve any underwriters, underwriting discounts or commissions, or any public offering. The Company relied upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Act") by virtue of Section 4(a)(2) thereof and/or Regulation D promulgated by the SEC under the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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 Number	Description
(4)	**Instruments defining the rights of securities holders, including indentures**
4.1	Form of Convertible Note (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on August 19, 2019)
4.2	Form of Warrant (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on August 19, 2019)
(10)	**Material Agreements**
10.1	Amended and Restated Promissory Note, dated May 8, 2019 by and between LegalSimpli Software, LLC and Conversion Labs PR LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 13, 2019)
10.2	Security Agreement, dated May 8, 2019 and between LegalSimpli Software, LLC and Conversion Labs PR LLC (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 13, 2019)
10.3	Operating Agreement of Conversion Labs Rx, LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 7, 2019)
10.4	Consulting Agreement, dated May 31, 2019, by and between Conversion Labs, Inc. and Harborside Advisors, LLC (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on June 7, 2019)
10.5	Consulting Agreement, dated May 31, 2019, by and between Conversion Labs, Inc. and Happy Walters (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on June 7, 2019)
10.6	Strategic Partnership Agreement, dated May 31, 2019, by and between Conversion Labs Rx, LLC and Specialty Medical Drugstore (d/b/a GoGo Meds) (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on June 7, 2019)
10.7	Membership Interest Purchase Agreement by and between the Company, Conversion Labs PR LLC, Taggart International Trust and American Nutra Tech LLC, dated April 25, 2019 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 31, 2019)
10.8	Second Amended and Restated Limited Liability Company Operating Agreement of Conversion Labs PR (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on July 31, 2019)
10.9‡	Employment Agreement by and between the Company and Mr. Juan Manuel Piñeiro Dagnery dated April 1, 2019 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on March 20, 2019)
10.10‡*	Employment Agreement by and between the Company and Mr. Stefan Galluppi dated March 18, 2019
10.11	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on August 19, 2019)
10.12	Form of Lock-Up Agreement (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on August 19, 2019)
(31)	**Rule 13a-14(a)/15d-14(a) Certifications**
31.1*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer
31.2*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer
(32)	**Section 1350 Certifications**
32.1**	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer
32.2**	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Accounting Officer
(101)*	**Interactive Data Files**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* *Filed herewith.*

** *Furnished herewith.*

‡ Employment Agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: */s/ Justin Schreiber*

Justin Schreiber
Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Date: November 14, 2019

By: */s/ Juan Manuel Piñeiro Dagnery*

Juan Manuel Piñeiro Dagnery
Chief Financial Officer (Principal Financial Officer)

Date: November 14, 2019