

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 UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number 333-209341

INNERSCOPE HEARING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

46-3096516

(IRS Employer Identification No.)

2151 Professional Drive, Second Floor, Roseville, CA 95661

(Address of principal executive offices)

(916) 218-4100

(Registrant's telephone number, including area code)

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input checked="" type="checkbox"/> |

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

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

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

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|----------------------------|--------------------------|--|
| None | N/A | N/A |

The number of shares outstanding of the Registrant's \$0.0001 par value Common Stock as of November 13, 2019, was 248,154,252 shares.

INNERSCOPE HEARING TECHNOLOGIES, INC.
FORM 10-Q
Quarterly Period Ended September 30, 2019

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INNERSCOPE HEARING TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 10,477 | \$ 87,826 |
| Accounts receivable, allowance for doubtful accounts of \$29,700 (2019) and \$18,383 (2018) | 32,272 | 6,112 |
| Accounts receivable from related party | 345,574 | 203,325 |
| Employee advances | 58,990 | 40,942 |
| Prepaid expenses | 118,825 | 167,992 |
| Inventory | 134,161 | 91,510 |
| Total current assets | 700,298 | 597,707 |
| Security deposits | 34,537 | 11,056 |
| Domain name | 3,000 | 3,000 |
| Intangible assets, net of accumulated amortization of \$107,046 (2019) and \$2,168 (2018) | 905,962 | 1,010,840 |
| Property and equipment, net of accumulated depreciation of \$17,806 (2019) and \$4,705 (2018) | 79,963 | 43,450 |
| Operating leases right-of-use assets, net | 1,273,841 | — |
| Investment in undivided interest in real estate | 1,222,534 | 1,226,963 |
| Total assets | \$ 4,220,134 | \$ 2,893,014 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,232,194 | \$ 1,233,653 |
| Accounts payable to related party | 22,548 | 22,548 |
| Notes payable - stockholder | 95,800 | 95,800 |
| Advances payable, stockholders | 39,964 | 57,526 |
| Convertible notes payable, net of discounts | 1,413,675 | 151,166 |
| Current portion of notes payable, net of deferred loan fees | 44,987 | 29,270 |
| Current portion of note payable-undivided interest in real estate | 20,401 | 19,660 |
| Customer deposits | 83,801 | 56,698 |
| Officer salaries payable | 206,985 | 188,942 |
| Income taxes payable | 23,998 | 23,998 |
| Derivative liabilities | 2,775,571 | 1,807,404 |
| Operating lease liabilities, current portion | 345,106 | — |
| Total current liabilities | 6,305,030 | 3,686,665 |
| Long term portion of note payable- undivided interest in real estate | 954,407 | 964,847 |
| Operating lease liabilities, less current portion | 945,242 | — |
| Total liabilities | 8,204,679 | 4,651,512 |
| Commitments and contingencies | | |
| Stockholders' Deficit: | | |
| Preferred stock, \$0.0001 par value; 25,000,000 shares authorized; | | |
| Series A preferred stock, par value \$0.0001, 9,510,000 shares authorized and -0- issued and outstanding | — | — |
| Series B preferred stock, par value \$0.0001, 900,000 shares authorized and issued and outstanding | 90 | 90 |
| Common stock, \$0.0001 par value; 975,000,000 shares authorized; 220,613,389 (2019) and 120,425,344 (2018) shares issued and outstanding, respectively | 22,061 | 12,042 |
| Common stock to be issued, \$0.0001 par value, 3,066,912 (2019) and 6,373,848 (2018) shares, respectively | 306 | 637 |
| Additional paid-in capital | 7,416,528 | 4,836,557 |
| Deferred stock compensation | (70,903) | (235,694) |
| Accumulated deficit | (11,352,625) | (6,372,129) |
| Total stockholders' deficit | (3,984,543) | (1,758,498) |
| | \$ 4,220,134 | \$ 2,893,014 |

See notes to condensed consolidated financial statements.

INNERSCOPE HEARING TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | |
| Revenues | \$ 250,781 | \$ 44,724 | \$ 641,983 | \$ 98,696 |
| Revenues, related party | — | 15,000 | 15,000 | 67,019 |
| Total revenues | <u>250,781</u> | <u>59,724</u> | <u>656,983</u> | <u>165,715</u> |
| Cost of sales | | | | |
| Cost of sales | 103,010 | 25,714 | 284,837 | 74,972 |
| Cost of sales, related | — | 3,371 | — | 24,779 |
| Total cost of sales | <u>103,010</u> | <u>29,085</u> | <u>284,837</u> | <u>99,751</u> |
| Gross profit | <u>147,771</u> | <u>30,639</u> | <u>372,146</u> | <u>65,964</u> |
| Operating Expenses: | | | | |
| Compensation and benefits (including stock- based fees of \$25,000 and \$75,000 for the three and nine months ended September 30, 2019 and \$772,600 for the nine months ended September 30, 2018) | 462,770 | 177,778 | 1,261,594 | 1,263,084 |
| Professional fees (including stock- based fees of \$171,500 and \$479,791 for three and nine months ended September 30, 2019 and \$62,597 and \$126,837 for three and nine months ended September 30, 2018) | 197,733 | 174,952 | 575,050 | 405,858 |
| Advertising and promotion | 92,966 | 46,408 | 404,550 | 137,736 |
| Rent (including related party of \$36,000 for three months ended September 30, 2019 and 2018 and \$108,000 for nine months ended September 30, 2019 and 2018) | 100,240 | 47,937 | 294,302 | 119,937 |
| Investor relations | 11,297 | 11,482 | 176,073 | 87,901 |
| Other general and administrative | 137,979 | 24,148 | 407,105 | 71,464 |
| Total operating expenses | <u>1,002,985</u> | <u>482,705</u> | <u>3,118,674</u> | <u>2,085,980</u> |
| Loss from operations | <u>(855,214)</u> | <u>(452,066)</u> | <u>(2,746,528)</u> | <u>(2,020,015)</u> |
| Other Expense: | | | | |
| Derivative income (expense) | 501,977 | (270,849) | 159,617 | (940,819) |
| Loss on investment in undivided interest in real estate | (9,245) | (2,132) | (4,429) | (1,390) |
| Gain (loss) on debt extinguishment | — | 33,775 | (44,393) | 33,775 |
| Gain on contract cancellations | — | 1,297,223 | — | 1,297,223 |
| Gain on collection of bad debt | — | 3,000 | — | 3,000 |
| Interest expense and finance charges | (1,109,565) | (399,278) | (2,344,763) | (713,070) |
| Total other expense, net | <u>(616,833)</u> | <u>661,739</u> | <u>(2,233,968)</u> | <u>(321,281)</u> |
| Net income (loss) | <u>\$ (1,472,047)</u> | <u>\$ 209,673</u> | <u>\$ (4,980,496)</u> | <u>\$ (2,341,296)</u> |
| Basic and diluted income (loss) per share | <u>\$ (0.01)</u> | <u>\$ 0.00</u> | <u>\$ (0.03)</u> | <u>\$ (0.04)</u> |
| Weighted average number of common shares outstanding Basic and diluted | <u>190,804,118</u> | <u>80,652,837</u> | <u>160,489,585</u> | <u>66,651,688</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 and 2018
(Unaudited)

| | Series A Preferred stock | | Series B Preferred stock | | Common stock | | Common stock to be issued | | Additional Paid-in Capital | Deferred stock Compensation | Retained deficit | Total Stockholders' deficit |
|---|--------------------------|--------|--------------------------|--------|--------------|-----------|---------------------------|--------|----------------------------|-----------------------------|------------------|-----------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balances July 1, 2019 | — | \$ — | 900,000 | \$ 90 | 161,826,468 | \$ 16,182 | 2,881,316 | \$ 288 | \$ 6,397,967 | \$ (242,402) | \$ (9,880,578) | \$ (3,708,453) |
| Stock based compensation | — | — | — | — | — | — | 654,241 | 65 | 24,935 | 171,499 | — | 196,499 |
| Stock issued from common stock to be issued | — | — | — | — | 468,645 | 47 | (468,645) | (47) | — | — | — | — |
| Common stock issued for convertible notes and accrued interest | — | — | — | — | 58,318,276 | 5,832 | — | — | 559,391 | — | — | 565,223 |
| Reclassification of derivative liabilities upon payment of convertible debt | — | — | — | — | — | — | — | — | 434,234 | — | — | 434,234 |
| Net loss for the three months ended September 30, 2019 | — | — | — | — | — | — | — | — | — | — | (1,472,047) | (1,472,047) |
| Balances September 30, 2019 | — | \$ — | 900,000 | \$ 90 | 220,613,389 | \$ 22,061 | 3,066,912 | \$ 306 | \$ 7,416,528 | \$ (70,903) | \$ (11,352,625) | \$ (3,984,543) |
| Balances January 1, 2019 | — | \$ — | 900,000 | \$ 90 | 120,425,344 | \$ 12,042 | 6,373,848 | \$ 637 | \$ 4,836,556 | \$ (235,694) | \$ (6,372,129) | \$ (1,758,498) |
| Stock based compensation | — | — | — | — | 6,119,774 | 612 | 654,241 | 65 | 389,324 | (270,500) | — | 119,501 |
| Amortization of deferred stock compensation | — | — | — | — | — | — | — | — | — | 435,291 | — | 435,291 |
| Stock issued from common stock to be issued | — | — | — | — | 3,961,177 | 396 | (3,961,177) | (396) | — | — | — | — |
| Common stock issued for settlement of accounts payable | — | — | — | — | 625,000 | 63 | — | — | 40,563 | — | — | 40,625 |
| Common stock issued for convertible notes and accrued interest | — | — | — | — | 89,482,094 | 8,948 | — | — | 977,739 | — | — | 986,688 |
| Reclassification of derivative liabilities upon payment of convertible debt | — | — | — | — | — | — | — | — | 1,172,346 | — | — | 1,172,346 |
| Net loss for the nine months ended September 30, 2019 | — | — | — | — | — | — | — | — | — | — | (4,980,496) | (4,980,496) |
| Balances September 30, 2019 | — | \$ — | 900,000 | \$ 90 | 220,613,389 | \$ 22,061 | 3,066,912 | \$ 306 | \$ 7,416,528 | \$ (70,903) | \$ (11,352,625) | \$ (3,984,543) |

| | Series A Preferred stock | | Series B Preferred stock | | Common stock | | Common stock to be issued | | Additional Paid-in Capital | Deferred stock Compensation | Retained deficit | Total Stockholders' deficit |
|---|--------------------------|--------|--------------------------|--------|--------------|-----------|---------------------------|--------|----------------------------|-----------------------------|------------------|-----------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balances July 1, 2018 | 9,510,000 | \$ 951 | 900,000 | \$ 90 | 48,956,945 | \$ 4,896 | 814,020 | \$ 81 | \$ 1,501,129 | \$ — | \$ (4,337,982) | \$ (2,830,837) |
| Stock based compensation | — | — | — | — | 3,543,553 | 354 | 186,289 | 19 | 195,657 | (175,000) | — | 21,030 |
| Cancellation of Series A Preferred Stock | (9,510,000) | (951) | — | — | 19,020,000 | 1,902 | — | — | -951 | — | — | — |
| Amortization of deferred stock compensation | — | — | — | — | — | — | — | — | — | 29,167 | — | 29,167 |
| Stock issued from common stock to be issued | — | — | — | — | — | — | (814,020) | (81) | — | — | — | (81) |
| Common stock issued or to be issued for convertible notes | — | — | — | — | 32,431,252 | 3,243 | 844,870 | 84 | 290,214 | — | — | 293,541 |
| Common stock issued for asset purchase | — | — | — | — | — | — | 340,352 | 34 | 22,940 | — | — | 22,974 |
| Reclassification of derivative liabilities upon payment of convertible debt | — | — | — | — | — | — | — | — | 543,616 | — | — | 543,616 |
| Net income for the three months ended September 30, 2018 | — | — | — | — | — | — | — | — | — | — | 209,673 | 209,673 |
| Balances September 30, 2018 | — | \$ — | 900,000 | \$ 90 | 103,951,750 | \$ 10,395 | 1,371,511 | \$ 137 | \$ 2,552,604 | \$ (145,833) | \$ (4,128,308) | \$ (1,710,915) |
| Balances January 1, 2018 | — | \$ — | — | \$ — | 61,539,334 | \$ 6,153 | 102,564 | \$ 10 | \$ 331,227 | \$ (25,000) | \$ (1,787,012) | \$ (1,474,623) |
| Stock based compensation | — | — | — | — | 3,767,625 | 377 | 186,289 | 19 | 227,937 | (175,000) | — | 53,333 |
| Amortization of deferred stock compensation | — | — | — | — | — | — | — | — | — | 54,167 | — | 54,167 |
| Stock issued from common stock to be issued | — | — | — | — | 102,564 | 10 | (102,564) | (10) | — | — | — | — |
| Common stock to be issued for asset purchase | — | — | — | — | — | — | 340,352 | 34 | 22,940 | — | — | 22,974 |
| Issuance of Series B preferred stock | — | — | 900,000 | 90 | — | — | — | — | 817,510 | — | — | 817,600 |
| Common stock issued or to be issued for convertible notes | — | — | — | — | 38,542,227 | 3,855 | 844,870 | 84 | 365,829 | — | — | 369,769 |
| Reclassification of derivative liabilities upon payment of convertible debt | — | — | — | — | — | — | — | — | 787,161 | — | — | 787,161 |
| Net loss for the nine months ended September 30, 2018 | — | — | — | — | — | — | — | — | — | — | (2,341,296) | (2,341,296) |
| Balances September 30, 2018 | — | \$ — | 900,000 | \$ 90 | 103,951,750 | \$ 10,395 | 1,371,511 | \$ 137 | \$ 2,552,604 | \$ (145,833) | \$ (4,128,308) | \$ (1,710,915) |

INNERSCOPE HEARING TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the nine months ended September 30, | |
|---|--|------------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net loss | \$ (4,980,496) | \$ (2,341,296) |
| Adjustments to reconcile net loss to net cash used in operations: | | |
| (Gain) loss on fair value of derivatives | (159,617) | 940,819 |
| Amortization of debt discounts | 2,183,394 | 619,336 |
| Depreciation and amortization | 317,388 | 1,853 |
| Stock compensation expense | 554,791 | 899,437 |
| Non cash interest expense | 2,500 | — |
| Loss on investment in undivided interest in real estate | 4,429 | 1,390 |
| (Gain) loss on debt extinguishment | 44,393 | (33,775) |
| Gain on collection of bad debts | — | (3,000) |
| Recognition of deferred revenues per settlement | — | (847,223) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable | (26,160) | (7,663) |
| Employee advances | (18,047) | — |
| Inventory | (42,651) | (29,847) |
| Prepaid assets | 49,167 | 12,297 |
| Other receivables | — | (5,725) |
| Accounts receivable, related party | (142,249) | (35,125) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 68,878 | 138,530 |
| Officer salaries payable | 18,044 | 75,510 |
| Customer deposits | 27,103 | 48,914 |
| Due to related party | — | (62,794) |
| Operating lease liabilities | (182,902) | — |
| Net cash used in operating activities | <u>(2,282,037)</u> | <u>(628,362)</u> |
| Cash flows from investing activities: | | |
| Payment of security deposits | (23,481) | — |
| Purchases of office and computer equipment | (49,614) | — |
| Net cash used in investing activities | <u>(73,095)</u> | <u>—</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of note payable | 89,100 | 32,600 |
| Advances (payments) to stockholder, net | (17,562) | 14,550 |
| Proceeds from issuances of convertible notes payable, net of debt issuance costs | 2,308,775 | 772,500 |
| Repayments of note payable | (102,530) | (55,578) |
| Repayments of advances, shareholder | — | (6,000) |
| Repayments of principal of convertible note payable | — | (149,546) |
| Net cash provided by financing activities | <u>2,277,783</u> | <u>608,526</u> |
| Net decrease in cash | (77,349) | (19,836) |
| Cash, Beginning of period | 87,826 | 84,720 |
| Cash, End of period | <u>\$ 10,477</u> | <u>\$ 64,884</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 14,755 | \$ 126,549 |
| Cash paid for income taxes | \$ — | \$ — |
| Schedule of non-cash Investing or Financing Activity: | | |
| Reclassification of derivative liabilities upon principal repayments of convertible notes | \$ 1,172,346 | \$ 787,162 |
| Conversion of notes payable and accrued interest in common stock | \$ 954,960 | \$ — |
| Common stock issued for settlement of accounts payable | \$ 25,000 | \$ — |
| Operating lease right-of-use assets and liabilities | \$ 1,473,250 | \$ — |
| Acquisition of Assets | | |
| Issuance of common stock as consideration for assets purchased | \$ 22,974 | \$ — |
| Assumed liabilities | 33,047 | — |
| Property and equipment | (38,400) | — |
| Other Assets | (4,614) | — |
| Customer base | (300) | — |
| Non- compete | (12,707) | — |
| | <u>\$ —</u> | <u>\$ —</u> |

See notes to condensed consolidated financial statements.

NOTE 1 - ORGANIZATION

Business

InnerScope Hearing Technologies, Inc. (“Company”, “InnerScope”) is a Nevada Corporation incorporated on June 15, 2012, with its principal place of business in Roseville, California. The Company was originally named InnerScope Advertising Agency, Inc. and was formed to provide advertising and marketing services to retail establishments in the hearing device industry. On August 25, 2017, the Company changed its name to InnerScope Hearing Technologies, Inc. to better reflect the Company’s current direction as a technology driven company with a scalable business model, encompassing; business to business (B2B) solutions, direct to consumer (DTC) sales and marketing and business to consumer (and B2C) solutions. The Company is a manufacturer and a DTC distributor/retailer of FDA (Food and Drug Administration) registered hearing aids, personal sound amplifier products (“PSAP’s”), hearing related treatment therapies, doctor-formulated dietary hearing supplements and proprietary CDB oil for treating tinnitus. The Company also owns and operates audiological and retail hearing device clinics and plans to continue to open and acquire additional clinics. As of the date of this filing, the Company owns nine retail hearing device clinics in California and manages two additional clinics that are owned by a related party.

NOTE 2 – Asset Purchase Acquisition of Kathy L Amos Audiology

Effective September 10, 2018, the Company acquired all of the assets and assumed certain liabilities of Kathy L Amos Audiology (“Amos Audiology”) in exchange for 340,352 shares of common stock (the “Acquisition”). Amos Audiology provides retail hearing aid sales and audiological services in the East Bay area of San Francisco.

Based on the fair value of the common stock issued of \$22,974 and the assumed liabilities of \$33,049, the total purchase consideration was \$56,023.

The following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the acquisition:

| | Purchase Price Allocation |
|---|----------------------------------|
| Fair value of consideration for Acquisition | \$ 22,974 |
| Liabilities assumed | 33,049 |
| Total purchase consideration | <u>\$ 56,023</u> |
| Tangible assets acquired | \$ 43,016 |
| Intangible assets | <u>13,007</u> |
| | <u>\$ 56,023</u> |

The total purchase price of \$56,023 has been allocated to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values as of the completion of the Acquisition. The fair value of Amos Audiology’s identifiable intangible assets was estimated primarily using the income approach which requires an estimate or forecast of all the expected future cash flows, either through the use of the relief-from-royalty method or the multi-period excess earnings method. The Company determined the identifiable intangible assets, consisting of a customer base and non-compete had fair values of \$300 and \$12,707, respectively.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements in this report have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present the financial position, results of operations and cash flows for the stated periods have been made. Except as described below, these adjustments consist only of normal and recurring adjustments. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated unaudited financial statements should be read in conjunction with a reading of the Company's financial statements and notes thereto included in the Annual Report for the year ended December 31, 2018, filed with the United States Securities and Exchange Commission (the "SEC") on April 16, 2019. Interim results of operations for the three and nine months ended September 30, 2019, and 2018, are not necessarily indicative of future results for the full year. Certain amounts from the 2018 period have been reclassified to conform to the presentation used in the current period.

Emerging Growth Companies

The Company qualifies as an "emerging growth company" under the 2012 JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of the benefits of this extended transition period for certain accounting standards.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash

The Company considers all highly liquid investments with an original term of three months or less to be cash equivalents. These investments are carried at cost, which approximates fair value. We held no cash equivalents as of September 30, 2019, and December 31, 2018. Cash balances may, at certain times, exceed federally insured limits. If the amount of a deposit at any time exceeds the federally insured amount at a bank, the uninsured portion of the deposit could be lost, in whole or in part, if the bank were to fail.

Accounts receivable

The Company records accounts receivable at the time products and services are delivered. An allowance for losses is established through a provision for losses charged to expense. Receivables are charged against the allowance for losses when management believes collectability is unlikely. The allowance (if any) is an amount that management believes will be adequate to absorb estimated losses on existing receivables, based on evaluation of the collectability of the accounts and prior loss experience. As of September 30, 2019, and December 31, 2018, management's evaluation required the establishment of an allowance for uncollectible receivables of \$29,700 and \$18,383, respectively.

Sales Concentration and Credit Risk

Following is a summary of customers who accounted for more than ten percent (10%) of the Company's revenues for the three and nine months ended September 30, 2018. No customer accounted for more than ten percent (10%) of the Company's revenues for the three and nine months ended September 30, 2019.

| | September 30, 2018 | | Accounts Receivable as of September 30, 2019 |
|---------------------|--------------------|----------|---|
| | 3 months | 9 months | |
| | % | % | |
| Customer A, related | 25.1% | 40.4% | \$ 345,574 |
| Customer B | — | 16.3% | \$ — |

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is determined using the first in first out (FIFO) method. Provision for potentially obsolete or slow-moving inventory is made based on management analysis or inventory levels and future sales forecasts. As of September 30, 2019, and December 31, 2018, management's analysis did not require any provisions to be recognized.

Intangible Assets

Costs for intangible assets are accounted for through the capitalization of those costs incurred in connection with developing or obtaining such assets. Capitalized costs are included in intangible assets in the consolidated balance sheets. On October 3, 2018, the Company entered into a Manufacturing Design and Marketing Agreement (the "Agreement") with Zounds Hearing, Inc., a Delaware corporation ("Zounds"), whereby, Zounds as the Subcontractor will provide design, technology, manufacturing and supply chain services to the Company (see Note 15) for a period of ten years. The Company will pay Zounds One Million (\$1,000,000) for the right to use proprietary technology (the "Technology Access Fee"). As of December 31, 2018, the Company has capitalized the \$1,000,000 Technology Access Fee as an intangible asset on the condensed consolidated balance sheets. The Technology Access Fee will be amortized over the term of the Agreement. The Company also acquired intangible assets from an asset purchase agreement (see Note 2).

Property and Equipment

Property and equipment are stated at cost, and depreciation is provided by use of a straight-line method over the estimated useful lives of the assets. The Company reviews property and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The estimated useful lives of property and equipment are as follows:

| | |
|-------------------------|---------|
| Computer equipment | 3 years |
| Machinery and equipment | 5 years |
| Furniture and fixtures | 5 years |

The Company's property and equipment consisted of the following at September 30, 2019, and December 31, 2018:

| | September 30, 2019 | December 31, 2018 |
|--------------------------|-----------------------|----------------------|
| Computer equipment | \$ 4,272 | \$ 2,651 |
| Machinery and equipment | 55,451 | 31,122 |
| Furniture and fixtures | 21,840 | 2,160 |
| Leasehold improvements | 16,206 | 12,222 |
| Accumulated depreciation | (17,806) | (4,705) |
| Balance | \$ 79,963 | \$ 43,450 |

Depreciation expense of \$5,211 and \$13,101 was recorded for the three and nine months ended September 30, 2019, respectively, and \$869 and \$1,311, for the three and nine months ended September 30, 2018, respectively.

Investment in Undivided Interest in Real Estate

The Company accounts for its' investment in undivided interest in real estate using the equity method, as the Company is severally liable only for the indebtedness incurred with its interest in the property. The Company includes its allocated portion of net income or loss in Other income (expense) in its Statement of Operations, with the offset to the equity investment account on the balance sheet. For the nine months ended September 30, 2019 and 2018, the Company recognized a loss of \$9,245 and \$4,429, respectively. As of September 30, 2019, and December 31, 2018, the carrying value of the Company's investment in undivided interest in real estate was \$1,222,534 and \$1,226,963 respectively (see Note 11).

Fair Value of Financial Instruments

The Company measures assets and liabilities at fair value based on an expected exit price as defined by the authoritative guidance on fair value measurements, which represents the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level.

The following are the hierarchical levels of inputs to measure fair value:

- Level 1 - Observable inputs that reflect quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The carrying amounts of the Company's financial assets and liabilities, such as cash, prepaid expenses, accounts receivable, accounts payable and accrued expenses, certain notes payable and notes payable - related party, approximate their fair values because of the short maturity of these instruments.

The following table represents the Company's financial instruments that are measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, for each fair value hierarchy level:

| September 30, 2018 | Derivative Liabilities | Total |
|--------------------|------------------------|--------------|
| Level I | \$ — | \$ — |
| Level II | \$ — | \$ — |
| Level III | \$ 2,775,571 | \$ 2,775,571 |
| December 31, 2018 | | |
| Level I | \$ — | \$ — |
| Level II | \$ — | \$ — |
| Level III | \$ 1,807,404 | \$ 1,807,404 |

Embedded Conversion Features

The Company evaluates embedded conversion features within convertible debt under ASC 815 "Derivatives and Hedging" to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion feature.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income.

For option-based simple derivative financial instruments, the Company uses the Monte Carlo simulations to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period.

Debt Issue Costs and Debt Discount

The Company may record debt issue costs and/or debt discounts in connection with raising funds through the issuance of debt. These costs may be paid in the form of cash, or equity (such as warrants). These costs are amortized to interest expense through the maturity of the debt. If a conversion of the underlying debt occurs prior to maturity a proportionate share of the unamortized amounts is immediately expensed.

Original Issue Discount

For certain convertible debt issued, the Company may provide the debt holder with an original issue discount. The original issue discount would be recorded to debt discount, reducing the face amount of the note and is amortized to interest expense through the maturity of the debt. If a conversion of the underlying debt occurs prior to maturity a proportionate share of the unamortized amounts is immediately expensed.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606") and all the related amendments. The Company elected to adopt this guidance using the modified retrospective method. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company's contracts with customers are generally on a purchase order basis and represent obligations that are satisfied at a point in time, as defined in the new guidance, generally upon delivery or has services are provided. Accordingly, revenue for each sale is recognized when the Company has completed its performance obligations. Any costs incurred before this point in time, are recorded as assets to be expensed during the period the related revenue is recognized. The Company accepts prepayments on hearing aids and records the amount received as customer deposits on its' balance sheet. When the Company delivers the hearing aid to the customer, revenue is recognized as well as the corresponding cost of sales.

As of September 30, 2019, the Company had received \$83,801 of customer deposits, that will be recognized as revenue after September 30, 2019, when the hearing aids are delivered to the customer.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10, Income Taxes. Deferred tax assets and liabilities are recognized to reflect the estimated future tax effects, calculated at the tax rate expected to be in effect at the time of realization. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

ASC 740-10 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. Interest and penalties are classified as a component of interest and other expenses. To date, the Company has not been assessed, nor paid, any interest or penalties.

Uncertain tax positions are measured and recorded by establishing a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized.

Advertising and Marketing Expenses

The Company expenses advertising and marketing costs as incurred. For the three and nine months ended September 30, 2019, advertising and marketing expenses were \$92,966 and \$404,550, respectively, and for the three and nine months ended September 30, 2018, advertising and marketing expenses were \$46,408 and \$137,736, respectively.

Leases

Effective January 1, 2019, the Company began accounting for leases under ASU 2016-02 (see Note 14). Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the condensed consolidated balance sheets. The Company leases an office space and several retail locations used to conduct our business. On January 1, 2019, the Company adopted ASU No. 2016-02, applying the package of practical expedients to leases that commenced before the effective date whereby the Company elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. For contracts entered into on or after the effective date, at the inception of a contract the Company assess whether the contract is, or contains, a lease. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether we have the right to direct the use of the asset. We allocate the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments. Leases entered into prior to January 1, 2019, are accounted for under ASC 840 and were not reassessed. We have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less.

Operating lease ROU assets represent the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, the Company use an incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Operating lease expense is recognized on a straight-line basis over the lease term and is included in rent in the condensed consolidated statements of operations.

Earnings (Loss) Per Share

The Company reports earnings (loss) per share in accordance with ASC 260, "Earnings per Share." Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net loss by the weighted-average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding during the period. As of September 30, 2019, and 2018, the Company's outstanding convertible debt is convertible into approximately 393,621,118 and 16,998,883 shares of common stock, subject to adjustment based on changes in the Company's stock price, respectively. This amount is not included in the computation of dilutive loss per share because their impact is antidilutive.

Recent Accounting Pronouncements

In July 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-11 “Earnings Per Share (Topic 260)”. The amendments in the update change the classification of certain equity-linked financial instruments (or embedded features) with down round features. The amendments also clarify existing disclosure requirements for equity-classified instruments. For freestanding equity-classified financial instruments, the amendments require entities that present earnings per share (“EPS”) in accordance with Topic 260, Earnings Per Share, to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features would be subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with early adoption permitted. The Company adopted this pronouncement as of fiscal 2017.

In June 2018, the FASB issued ASU No. 2018-07 “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. The guidance is effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, but no earlier than a company’s adoption date of Topic 606, Revenue from Contracts with Customers. The Company does not anticipate this ASU having a material impact on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-13, “Changes to Disclosure Requirements for Fair Value Measurements”, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company will be evaluating the impact this standard will have on the Company’s consolidated financial statements.

Other accounting standards that have been issued or proposed by 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. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 4 – GOING CONCERN AND MANAGEMENT’S PLANS

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which assumes the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company experienced a net loss of \$4,980,496 for the nine months ended September 30, 2019. At September 30, 2019, the Company had a working capital deficit of \$5,604,732, and an accumulated deficit of \$11,352,625. These factors raise substantial doubt about the Company’s ability to continue as a going concern and to operate in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty.

Management’s Plans

The Company continues to implement an industry encompassing revenue strategy, including the current revenue model to other major sectors of the global hearing industry. On September 10, 2018, the Company acquired all of the assets and assumed certain liabilities of Amos Audiology (see Note 2). This transaction is part of management’s plans to expand the Company’s retail clinic business by opening multiple clinics in the next 12 months. During the nine months ended September 30, 2019, the Company opened 6 more retail clinics. The Company currently owns 9 clinics and manages two additional clinics that are owned by a related party.

NOTE 5 – INTANGIBLE ASSETS, NET (OTHER THAN GOODWILL)

The Company's intangible assets consist of a customer list and non-compete acquired from Amos Audiology (see Note 2) and a Technology Access Fee required to be paid by the Company in connection with a manufacturing design and marketing agreement executed with a supplier (see Note 13). The estimated useful lives of these intangible assets are as follows:

| | |
|-----------------------|----------|
| Customer list | 2 years |
| Non-compete | 2 years |
| Technology access fee | 10 years |

The Company's intangible assets consisted of the following at September 30, 2019, and December 31, 2018:

| | September 30, 2019 | December 31, 2018 |
|-----------------------|-----------------------|----------------------|
| Customer list | \$ 300 | \$ 300 |
| Non-compete | 12,708 | 12,708 |
| Technology access fee | 1,000,000 | 1,000,000 |
| Amortization | (107,046) | (2,168) |
| Balance | <u>\$ 905,962</u> | <u>\$ 1,010,840</u> |

The Company recognized \$26,626 and \$104,878 of amortization expense for the three and nine months ended September 30, 2019, respectively.

NOTE 6 – ADVANCES PAYABLE, STOCKHOLDER*Chief Executive Officer*

A summary of the activity for the nine months ended September 30, 2019, and the year ended December 31, 2018, representing amounts paid by the Company's CEO (stockholder) on behalf of the Company and amounts reimbursed is as follows.

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Beginning Balance | \$ 57,526 | \$ 138,637 |
| Amounts paid on Company's behalf | 517,188 | 589,524 |
| Amount applied to accrued officer salaries | 53,943 | — |
| Reimbursements | (588,693) | (625,635) |
| Cancelled in exchange for Series B preferred stock | — | (45,000) |
| Ending Balance | <u>\$ 39,964</u> | <u>\$ 57,526</u> |

The ending balances as of September 30, 2019, and December 31, 2018, are included in Advances payable, stockholder on the condensed consolidated balance sheets included herein.

NOTE 7 – NOTE PAYABLE, STOCKHOLDER

A summary of the activity for the nine months ended September 30, 2019, and the year ended December 31, 2018, of amounts the Company's CEO (stockholder) loaned the Company and amounts repaid is as follows:

| | September 30, 2019 | December 31, 2018 |
|-------------------------------|-----------------------|----------------------|
| Beginning Balance | \$ 95,800 | \$ 65,000 |
| Amounts loaned to the Company | — | 36,800 |
| Repaid | — | — |
| Ending Balance | <u>\$ 95,800</u> | <u>\$ 95,800</u> |

The ending balance amount is due on demand, carries interest at 8% per annum and is included Notes payable, stockholder on the consolidated balance sheets included herein.

NOTE 8 – NOTE PAYABLE

On October 8, 2018, the Company entered into a Business Loan Agreement (the “October BLA”) for \$47,215 with a third- party, whereby the Company received \$35,500 on October 10, 2018. The October BLA requires the Company to make the first six monthly payments of principal and interest of \$4,467 per month, and then \$3,402 for months seven through twelve. The note carries a 33% interest rate and matures on October 28, 2019. The October BLA was paid in full on July 26, 2019. As of September 30, 2019, and December 31, 2018, there was a balance of \$-0- and \$38,280, respectively, on the October BLA, with carrying value of \$29,270 as of December 31, 2018, net of an unamortized discount of \$9,011.

On February 4, 2019, the Company entered into a Business Loan Agreement (the “Feb 2019 BLA”) for \$8,584 with a third- party, whereby the Company received \$7,400 on February 5, 2019. The Feb 2019 BLA requires the Company to make the first two monthly payments of principal and interest of \$1,640 per month, and then \$1,326 for months three through six. The note carried a 16% interest rate and was paid in full on July 26, 2019.

On May 7, 2019, the Company entered into a Business Loan Agreement (the “May 2019 BLA”) for \$18,088 with a third- party, whereby the Company received \$13,600 on May 7, 2019. The May 2019 BLA requires the Company to make the first six monthly payments of principal and interest of \$1,711 per month, and then \$1,303 for months seven through twelve. The note carried a 33% interest rate and was paid in full on July 26, 2019.

On July 11, 2019, the Company entered into a Business Loan Agreement (the “July 2019 BLA”) for \$11,136 with a third- party, whereby the Company received \$9,600 on July 12, 2019. The July 2019 BLA requires the Company to make the first two monthly payments of principal and interest of \$2,128 per month, and then \$1,720 for months three through six. The note carried a 47% interest rate and was paid in full on July 26, 2019.

On July 23, 2019, the Company entered into a Business Loan Agreement (the “2nd July 2019 BLA”) for \$79,200 with a third- party, whereby the Company received \$58,500 on July 26, 2019. The 2nd July 2019 BLA requires the Company to make 39 weekly payments of \$2,031. The note carries a 32% interest rate and matures April 23, 2020. During the nine months ended September 30, 2019, the Company made payments of \$18,277. As of September 30, 2019, there was a remaining balance of \$60,923.

A summary of the activity for the nine months ended September 30, 2019, and the year ended December 31, 2018, of notes payable is as follows:

| | September 30, 2019 | December 31, 2018 |
|-------------------------------|-----------------------|----------------------|
| Beginning loan balance | \$ 38,281 | \$ — |
| Amounts loaned to the Company | 115,473 | 101,593 |
| Repaid | (92,831) | (63,312) |
| Principal balance | 60,923 | 38,281 |
| Unamortized discounts | (15,936) | (9,011) |
| Ending Balance | \$ 44,987 | \$ 29,270 |

NOTE 9 – RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2019, and the year ended December 31, 2018, our CEO (stockholder) paid expenses and accounts payable on behalf of the Company (see Note 6). As of September 30, 2019, and December 31, 2018, the Company owed the CEO \$39,964 and \$57,526, respectively, which is included in Advances payable, stockholder on the condensed consolidated balance sheets included herein.

Pursuant to a Marketing Agreement (cancelled August 5, 2016), the Company provided marketing programs to promote and sell hearing aid instruments and related devices to Moore Family Hearing Company (“MFHC”). MFHC owned and operated retail hearing aid stores. Based on common control of MFHC and the Company, all transactions with MFHC are classified as related party transactions. The Company has offset the accounts receivable owed from MFHC for these services with expenses of the Company that have been paid by MFHC. As a result of these payments, in addition to MFHC’s payments to the Company through December 31, 2016, the balance due to MFHC as of September 30, 2019, and December 31, 2018, was \$22,548, which is included in Accounts payable, related party, on the condensed consolidated balance sheets included herein.

Effective August 1, 2016, the Company agreed to compensation of \$225,000 and \$125,000 per year for the Company’s CEO and CFO, respectively. On November 15, 2016, the Company entered into employment agreements with its CEO and CFO, which includes their annual base salaries of \$225,000 and \$125,000, respectively. For the three and nine months ended September 30, 2019, and 2018, the Company recorded expenses to its officers in the following amounts:

| Description | Three months ended September 30, | | Nine months ended September 30, | |
|-------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| CEO | \$ 56,250 | \$ 59,134 | \$ 168,750 | \$ 171,634 |
| CFO | 31,250 | 30,449 | 93,450 | 91,989 |
| Total | <u>\$ 87,500</u> | <u>\$ 89,583</u> | <u>\$ 262,200</u> | <u>\$ 263,623</u> |

As of September 30, 2019, and December 31, 2018, the Company in the aggregate owes the CEO and CFO \$206,985 and \$188,942, respectively, for accrued and unpaid wages. These amounts are included in Officer salaries payable on the balance sheets included herein.

In September 2016, the officers and directors of the Company formed a California Limited Liability Company (“LLC1”), for the purpose of acquiring commercial real estate and other business activities. On December 24, 2016, LLC1 acquired two retail stores from the buyer of the MFHC stores. On March 1, 2017, the Company entered into a twelve-month Marketing Agreement with each of the stores to provide telemarketing and design and marketing services for \$2,500 per month per store, resulting in related party revenues of \$15,000 for the nine months ended September 30, 2019, and \$15,000 and \$45,000 for the three and nine months ended September 30, 2018, respectively. Additionally, for the nine months ended September 30, 2018, the Company invoiced LLC1 \$20,745 for the Company’s production, printing and mailing services and \$1,275 for the nine months ended September 30, 2018, for sale of products. As of September 30, 2019, and December 31, 2018, LLC1 owes the Company \$345,574 and \$203,325, respectively, for the consulting fees and mailing services as well as expenses of LLC1 paid by the Company.

On June 14, 2017, the Company entered into a five-year lease with LLC1 for approximately 6,944 square feet and a monthly rent of \$12,000. For the three and nine months ended September 30, 2019, and 2018, the Company expensed \$36,000 and \$108,000, respectively, related to this lease and is included in Rent, on the condensed consolidated statement of operations, included herein. As of September 30, 2019, and December 31, 2018, the Company owed LLC1 \$71,700 and \$30,500, respectively, for unpaid rent.

On May 9, 2017, the Company and LLC1 purchased certain real property from an unaffiliated party. The Company and LLC1 have agreed that the Company purchased and owns 49% of the building and LLC1 purchased and owns 51% of the building. The contracted purchase price for the building was \$2,420,000 and the total amount paid at closing was \$2,501,783 including, fees, insurance, interest and real estate taxes. The Company paid for their building interest by delivering cash at closing of \$209,971 and being a co-borrower on a note in the amount of \$2,057,000, of which the Company has agreed with LLC1 to pay \$1,007,930 (see Note 10).

NOTE 10– INVESTMENT IN UNDIVIDED INTEREST IN REAL ESTATE

On May 9, 2017, the Company and LLC1 purchased certain real property from an unaffiliated party. The Company and LLC1 have agreed that the Company purchased and owns 49% of the building and LLC1 purchased and owns 51% of the building. The contracted purchase price for the building was \$2,420,000 and the total amount paid at closing was \$2,501,783 including, fees, insurance, interest and real estate taxes. The Company paid for their building interest by delivering cash at closing of \$209,971 and being a co-borrower on a note in the amount of \$2,057,000, of which the Company has agreed with LLC1 to pay \$1,007,930.

The allocated portion of the results in an equity method investment in a privately-held, related party, company are included in the Company's condensed consolidated statements of operations. For the three and nine months ended September 30, 2019, a loss of \$9,245 and \$4,429, respectively, and a net loss of \$2,132 and \$1,390, for the three and nine months ended September 30, 2018, respectively, is included in "Other income (expense), net". As of September 30, 2019, and December 31, 2018, the carrying value of the Company's investment in undivided interest in real estate was \$1,222,534 and \$1,226,963, respectively.

The unaudited condensed balance sheets as of September 30, 2019, and December 31, 2018, and the statement of operations for the nine months ended September 30, 2019, and 2018, for the real property is as follows:

| | (Unaudited) September 30, 2019 | (Unaudited) December 31, 2018 |
|--|--------------------------------------|-------------------------------------|
| Current assets: | | |
| Cash | \$ 178 | \$ 2,257 |
| Due from InnerScope | 72,600 | 30,500 |
| Prepaid expenses and other current assets | 58,761 | 72,931 |
| Total current assets | 131,539 | 105,958 |
| Land and Building, net | 2,321,612 | 2,354,282 |
| Other Assets, net | 47,788 | 53,323 |
| Total assets | <u>\$ 2,500,937</u> | <u>\$ 2,513,563</u> |
| Current portion of mortgage payable | | |
| | \$ 41,635 | \$ 40,122 |
| Other current liabilities | 64,758 | 48,551 |
| Total current liabilities | 106,393 | 88,673 |
| Mortgage payable, long-term | 1,947,769 | 1,969,076 |
| Security deposits | 13,064 | 13,064 |
| Total liabilities | 2,067,226 | 2,070,813 |
| Total equity | 433,711 | 442,750 |
| Total liabilities and equity | <u>\$ 2,500,937</u> | <u>\$ 2,513,563</u> |
| 2019 | | |
| Rental income | \$ 221,870 | \$ 210,696 |
| Expenses: | | |
| Property taxes | 6,645 | 10,938 |
| Depreciation and amortization | 38,205 | 32,675 |
| Insurance | 16,457 | 2,033 |
| Repairs and maintenance | 18,214 | 20,860 |
| Utilities and other | 35,049 | 24,707 |
| Interest expense | 116,339 | 103,319 |
| Total expenses | <u>230,909</u> | <u>213,532</u> |
| Net loss | <u>\$ (9,039)</u> | <u>\$ (2,836)</u> |

NOTE 11— NOTE PAYABLE - UNDIVIDED INTEREST IN REAL ESTATE

On May 9, 2017, the Company and LLC1 purchased certain real property from an unaffiliated party. The Company and LLC1 have agreed that the Company purchased and owns 49% of the building and LLC1 purchased and owns 51% of the building. The contracted purchase price for the building was \$2,420,000 and the total amount paid at closing was \$2,501,783 including, fees, insurance, interest and real estate taxes. The Company is a co-borrower on a \$2,057,000 Small Business Administration Note (the "SBA Note"). The SBA Note carries a 25-year term, with an initial interest rate of 6% per annum, adjustable to the Prime interest rate plus 2%, and is secured by a first position Deed of Trust and business assets located at the property. The Company initially recorded a liability of \$1,007,930 for its portion of the SBA Note, with the offset being to Investment in undivided interest in real estate on the balance sheet presented herein. As of September 30, 2019, the current and long-term portion of the SBA Note is \$20,401 and \$954,407, respectively. Future principal payments for the Company's portion are:

| Twelve months ending September 30, | Amount | |
|------------------------------------|--------|---------|
| 2020 | \$ | 20,401 |
| 2021 | | 21,821 |
| 2022 | | 23,168 |
| 2023 | | 24,597 |
| 2024 | | 25,967 |
| Thereafter | | 858,854 |
| Total | \$ | 974,808 |

NOTE 12– CONVERTIBLE NOTES PAYABLE

On March 2, 2018, the Company completed the closing of a private placement financing transaction (the “Transaction”) when a third-party investor purchased a convertible note (the “Convertible Note”). The Convertible Note carries a 10% annual interest rate and is in the principal amount of \$50,000. Principal and interest was due and payable March 2, 2019, and the Note is convertible into shares of the Company’s common stock at any time after one hundred eighty (180) days, at a conversion price (the “Conversion Price”) equal to seventy-five percent (75%) of the average closing price of the Company’s common stock for the ten (10) days immediately preceding the conversion, representing a twenty-five percent (25%) discount. The embedded conversion feature included in the note resulted in an initial debt discount of \$13,399, and an initial derivative liability of \$13,399. For the nine months ended September 30, 2019, amortization of the debt discount of \$2,233 was charged to interest expense. During the nine months ended September 30, 2019, the investor converted \$50,000 of principal and \$2,514 of interest into 2,236,291 shares of common stock. As of September 30, 2019, and December 31, 2018, the note balance was \$-0- and \$50,000, respectively, with a carrying value of \$47,767 at December 31, 2018, net of unamortized discounts of \$2,333.

On March 27, 2018, the Company completed the closing of a private placement financing transaction (the “Transaction”) when a third-party investor purchased a convertible note (the “Convertible Note”). The Convertible Note carries a 10% annual interest rate and is in the principal amount of \$25,000. Principal and interest were due and payable March 27, 2019, and the Note is convertible into shares of the Company’s common stock at any time after one hundred eighty (180) days, at a conversion price (the “Conversion Price”) equal to seventy-five percent (75%) of the average closing price of the Company’s common stock for the ten (10) days immediately preceding the conversion, representing a twenty-five percent (25%) discount. The embedded conversion feature included in the note resulted in an initial debt discount of \$6,736, and an initial derivative liability of \$6,736. For the nine months ended September 30, 2019, amortization of the debt discount of \$1,628 was charged to interest expense. On April 29, 2019 the Note was sold to a third- party investor (see below). As of September 30 2019, and December 31, 2018, the note balance is \$-0- and \$25,000, respectively, with a carrying value of \$23,372, net of unamortized discount of \$1,628 as of December 31, 2018.

On May 11, 2018, the Company issued a convertible promissory note (the “Note”), with a face value of \$100,000, maturing on May 11, 2019, and stated interest of 10% to a third-party investor. The note is convertible at any time after the funding of the note into a variable number of the Company's common stock, based on a conversion ratio of 62% of the lowest trading price for the 20 days prior to conversion. The note was funded on May 16, 2018, when the Company received proceeds of \$75,825, after disbursements to vendors and for the lender’s transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$95,000, an initial derivative expense of \$60,635 and an initial derivative liability of \$155,635. For the nine months ended September 30, 2019, amortization of the debt discount of \$17,020 was charged to interest expense. The Company also recorded a debt issue discount of \$5,000 and amortized \$895 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$50,000 of principal and \$3,564 of interest into 5,539,273 shares of common stock. As of September 30, 2019, and December 31, 2018, the note balance is \$-0- and \$50,000, respectively, with a December 31, 2018, carrying value of \$32,085, net of unamortized discounts of \$17,915.

On May 23, 2018, the Company issued a convertible promissory note (the "Note"), with a face value of \$60,000, with a maturity date of February 22, 2019, and stated interest of 12% to a third-party investor. The note is convertible at any time after the funding of the note into a variable number of the Company's common stock, based on a conversion ratio of 65% of the lowest trading price for the 20 days prior to conversion. The note was funded on May 30, 2018, when the Company received proceeds of \$57,000, after the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$57,000, an initial derivative expense of \$48,033 and an initial derivative liability of \$105,033. For the nine months ended September 30, 2019, amortization of the debt discount of \$11,292 was charged to interest expense. The Company also recorded a debt issue discounts of \$4,500 and amortized \$1,377 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$51,275 of principal and \$9,838 of interest into 7,909,037 shares of common stock. As of September 30, 2019, and December 31, 2018, the note balance was \$-0- and \$51,275, respectively, with a carrying value of \$39,389, net of unamortized discounts of \$11,886 at December 31, 2018.

On October 23, 2018, an investor funded the \$50,000 remaining of a convertible promissory note (the "Note") issued on June 26, 2018, with an original face value of \$92,000, maturing on September 26, 2019, and stated interest of 10% to a third-party investor. The note is convertible at any time after ninety (90) days of the funding of the note into a variable number of the Company's common stock, based on a conversion ratio of 65% of the lowest trading price for the 20 days prior to conversion. On October 23, 2018, the Company recorded a note balance of \$50,000 when the Company received proceeds of \$50,000. The embedded conversion feature included in the funding of October 23, 2018, resulted in an initial debt discount of \$50,000, an initial derivative expense of \$45,291 and an initial derivative liability of \$95,291. For the nine months ended September 30, 2019, amortization of the debt discount of \$37,986 was charged to interest expense. During the nine months ended September 30, 2019, the investor converted \$50,000 of principal and \$2,397 of interest into 2,495,107 shares of common stock. As of September 30, 2019, and December 31, 2018, the note balance is \$-0- and \$50,000, respectively, with a carrying value of \$12,014, net of unamortized discounts of \$37,986, at December 31, 2018.

On November 2, 2018, the Company issued a convertible redeemable note with a face value of \$280,500 and a back-end convertible redeemable note for \$280,500 (the "Notes"), maturing on November 2, 2019, and a stated interest of 8% to a third-party investor. The notes are convertible at any time after funding of the note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The first note was funded on November 2, 2018, when the Company received proceeds of \$255,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the first note resulted in an initial debt discount of \$250,000, an initial derivative expense of \$148,544 and an initial derivative liability of \$398,544. For the nine months ended September 30, 2019, amortization of the debt discount of \$208,333 was charged to interest expense. The Company also recorded debt issue discounts of \$55,500 and amortized \$46,320 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$280,500 of principal and \$14,001 of interest into 23,705,749 shares of common stock. As of September 30, 2019, and December 31, 2018, the first note balance is \$-0- and \$280,500, respectively, with a December 31, 2018, carrying value of \$46,750, net of unamortized discounts of \$233,750. On December 26, 2018, the investor partially funded \$187,000 of the back-end note, when the Company received proceeds of \$166,667, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the partial funding of the back-end note resulted in an initial debt discount of \$166,667, an initial derivative expense of \$100,081 and an initial derivative liability of \$266,748. For the nine months ended September 30, 2019, amortization of the debt discount of \$146,704 was charged to interest expense. The Company also recorded debt issue discounts of \$37,000 and amortized \$30,398 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, and December 31, 2018, the partial back-end note balance is \$187,000, with carrying values of \$163,633 and \$2,926, respectively, net of unamortized discounts of \$23,367 and \$184,074, respectively. On January 29, 2019, the investor funded \$93,500, of and completing the back-end note, when the Company received proceeds of \$75,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the partial funding of the back-end note resulted in an initial debt discount of \$75,000, an initial derivative expense of \$63,924 and an initial derivative liability of \$138,924. For the nine months ended September 30, 2019, amortization of the debt discount of \$65,884 was charged to interest expense. The Company also recorded debt issue discounts of \$18,500 and amortized \$14,486 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the second partial back-end note balance is \$93,500, with carrying values of \$80,371, net of unamortized discounts of \$13,129.

On December 4, 2018, the Company issued a convertible redeemable note (the "Note") with a face value of \$158,333 maturing on December 4, 2019, and a stated interest of 8% to a third-party investor. The note is convertible at any time after funding of the note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on December 4, 2018, when the Company received proceeds of \$137,250, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$137,500, an initial derivative expense of \$87,293 and an initial derivative liability of \$224,793. For the nine months ended September 30, 2019, amortization of the debt discount of \$103,125 was charged to interest expense. The Company also recorded debt issue discounts of \$35,083 and amortized \$26,313 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$125,000 of principal and \$7,550 of interest into 16,267,528 shares of common stock. As of September 30, 2019, and December 31, 2018, the note balance is \$33,333 and \$158,333, respectively, with carrying values of \$4,450 and \$13,194, respectively, net of unamortized discounts of \$28,883 and \$145,139, respectively.

On December 4, 2018, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$230,000 and two back-end convertible redeemable notes for \$115,000 each. The notes mature on December 4, 2019, have a stated interest of 8% and each note is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The initial note was funded on December 4, 2018, when the Company received proceeds of \$210,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$210,000, an initial derivative expense of \$108,922 and an initial derivative liability of \$318,292. For the nine months ended September 30, 2019, amortization of the debt discount of \$192,500 was charged to interest expense. The Company also recorded debt issue discounts of \$41,800 and amortized \$38,498 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$230,000 of principal and \$9,500 of interest into 23,862,502 shares of common stock. As of September 30, 2019, and December 31, 2018, the initial note balance is \$-0- and \$230,000, respectively, with a December 31, 2018, carrying value of \$19,167, net of unamortized discounts of \$210,833. On February 12, 2019, the investor funded the first back-end note, when the Company received proceeds of \$94,100, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the first back-end note resulted in an initial debt discount of \$94,100, an initial derivative expense of \$64,364 and an initial derivative liability of \$158,464. For the nine months ended September 30, 2019, amortization of the debt discount of \$58,813 was charged to interest expense. The Company also recorded debt issue discounts of \$20,900 and amortized \$13,063 to interest expense for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the investor converted \$40,000 of principal and \$2,560 of interest into 6,019,802 shares of common stock. As of September 30, 2019, the first back-end note balance is \$75,000, with a carrying value of \$31,875 net of unamortized discounts of \$43,125. On March 1, 2019, the investor funded the second back-end note, when the Company received proceeds of \$98,175, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the funding of the second back-end note resulted in an initial debt discount of \$98,175, an initial derivative expense of \$62,254 and an initial derivative liability of \$160,429. For the nine months ended September 30, 2019, amortization of the debt discount of \$57,596 was charged to interest expense. The Company also recorded debt issue discounts of \$16,825 and amortized \$9,949 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the second back-end note balance is \$115,000, with carrying values of \$67,444, net of unamortized discounts of \$47,556.

On December 24, 2018, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$195,000 and two back-end convertible redeemable notes for \$97,500 each. The notes mature on December 24, 2019, have a stated interest of 8% and each note is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The initial note was funded on December 26, 2018, when the Company received proceeds of \$177,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$177,000, an initial derivative expense of \$92,464 and an initial derivative liability of \$269,464. For the nine months ended September 30, 2019, amortization of the debt discount of \$132,750 was charged to interest expense. The Company also recorded debt issue discounts of \$35,000 and amortized \$26,250 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, and December 31, 2018, the initial note balance is \$195,000, with carrying values of \$144,931 and \$2,600, respectively, net of unamortized discounts of \$50,069 and \$192,400, respectively.

On January 22, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$245,000 and two back-end convertible redeemable notes for \$122,500 each. The notes mature on January 22, 2020, have a stated interest of 8% and each note is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The initial note was funded on January 22, 2019, when the Company received proceeds of \$200,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$200,000, an initial derivative expense of \$134,208 and an initial derivative liability of \$334,208. For the nine months ended September 30, 2019, amortization of the debt discount of \$13,500 was charged to interest expense. The Company also recorded debt issue discounts of \$45,000 and amortized \$30,938 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the initial note balance is \$245,000, with a carrying value of \$168,438, net of unamortized discounts of \$76,562. On July 18, 2019, the investor funded the first back-end note, when the Company received proceeds of \$100,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the funding of the first back-end note resulted in an initial debt discount of \$100,000, an initial derivative expense of \$19,852 and an initial derivative liability of \$19,852. For the nine months ended September 30, 2019, amortization of the debt discount of \$20,776 was charged to interest expense. The Company also recorded debt issue discounts of \$22,500 and amortized \$4,680 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the first back-end note balance is \$122,500, with a carrying value of \$25,457, net of unamortized discounts of \$97,043.

On February 22, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$116,667. The note matures on February 22, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on February 22, 2019, when the Company received proceeds of \$90,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$90,000, an initial derivative expense of \$36,138 and an initial derivative liability of \$126,138. For the nine months ended September 30, 2019, amortization of the debt discount of \$54,375 was charged to interest expense. The Company also recorded debt issue discounts of \$24,467, and amortized \$14,458 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$116,667, with a carrying value of \$71,032, net of unamortized discounts of \$45,635.

On March 8, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$133,333. The note matures on March 8, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on March 8, 2019, when the Company received proceeds of \$106,200, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$106,200, an initial derivative expense of \$82,538 and an initial derivative liability of \$188,738. For the nine months ended September 30, 2019, amortization of the debt discount of \$59,574 was charged to interest expense. The Company also recorded debt issue discounts of \$29,333, and amortized \$16,928 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$133,333, with a carrying value of \$74,303, net of unamortized discounts of \$59,030.

On March 20, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$89,085 and a back-end convertible redeemable note for \$89,085. The notes mature on March 20, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The initial note was funded on March 20, 2019, when the Company received proceeds of \$75,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$75,000, an initial derivative expense of \$48,913 and an initial derivative liability of \$123,913. For the nine months ended September 30, 2019, amortization of the debt discount of \$39,454 was charged to interest expense. The Company also recorded debt issue discounts of \$14,085, and amortized \$7,404 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the initial note balance is \$89,075, with a carrying value of \$46,859, net of unamortized discounts of \$42,226. On August 20, 2019, the investor funded the first back-end note, when the Company received proceeds of \$75,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the funding of the first back-end note resulted in an initial debt discount of \$75,000, an initial derivative expense of \$84,293 and an initial derivative liability of \$9,293. For the nine months ended September 30, 2019, amortization of the debt discount of \$8,103 was charged to interest expense. The Company also recorded debt issue discounts of \$14,085 and amortized \$1,523 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the first back-end note balance is \$89,085, with a carrying value of \$9,626, net of unamortized discounts of \$79,459.

Also, on March 20, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$89,085 and a back-end convertible redeemable note for \$89,085. The notes mature on March 20, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The initial note was funded on March 20, 2019, when the Company received proceeds of \$75,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$75,000, an initial derivative expense of \$48,913 and an initial derivative liability of \$123,913. For the nine months ended September 30, 2019, amortization of the debt discount of \$39,454 was charged to interest expense. The Company also recorded debt issue discounts of \$14,085, and amortized \$7,404 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the initial note balance is \$89,075, with carrying values of \$46,859, net of unamortized discounts of \$42,226. On September 5, 2019, the investor funded the first back-end note, when the Company received proceeds of \$75,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the funding of the first back-end note resulted in an initial debt discount derivative liability of \$74,664. For the nine months ended September 30, 2019, amortization of the debt discount of \$6,205 was charged to interest expense. The Company also recorded debt issue discounts of \$14,085 and amortized \$1,171 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the first back-end note balance is \$89,085, with a carrying value of \$7,713, net of unamortized discounts of \$81,372.

On April 12, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$208,000. The note matures on April 12, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on April 12, 2019, when the Company received proceeds of \$175,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$175,000, an initial derivative expense of \$104,450 and an initial derivative liability of \$279,450. For the nine months ended September 30, 2019, amortization of the debt discount of \$79,989 was charged to interest expense. The Company also recorded a debt issue discount of \$33,000, and amortized \$15,098 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$208,000, with a carrying value of \$95,087, net of unamortized discounts of \$12,913.

Also, on April 12, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$208,000. The note matures on April 12, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on April 12, 2019, when the Company received proceeds of \$175,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$175,000, an initial derivative expense of \$104,450 and an initial derivative liability of \$279,450. For the nine months ended September 30, 2019, amortization of the debt discount of \$79,989 was charged to interest expense. The Company also recorded a debt issue discount of \$33,000, and amortized \$15,098 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$208,000, with a carrying value of \$95,087, net of unamortized discounts of \$12,913.

On May 15, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$208,000. The note matures on May 15, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on May 15, 2019, when the Company received proceeds of \$175,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$175,000, an initial derivative expense of \$104,082 and an initial derivative liability of \$279,082. For the nine months ended September 30, 2019, amortization of the debt discount of \$65,446 was charged to interest expense. The Company also recorded a debt issue discount of \$33,000, and amortized \$12,353 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$208,000, with a carrying value of \$77,799, net of unamortized discounts of \$130,201.

Also, on May 15, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$167,352. The note matures on May 15, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on May 15, 2019, when the Company received proceeds of \$140,250, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$140,250, an initial derivative expense of \$85,329 and an initial derivative liability of \$225,579. For the nine months ended September 30, 2019, amortization of the debt discount of \$52,450 was charged to interest expense. The Company also recorded a debt issue discount of \$27,102, and amortized \$10,145 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$167,352, with a carrying value of \$62,596, net of unamortized discounts of \$104,756.

On June 13, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$119,000. The note matures on June 13, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on June 13, 2019, when the Company received proceeds of \$100,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$100,000, an initial derivative expense of \$49,779 and an initial derivative liability of \$149,779. For the nine months ended September 30, 2019, amortization of the debt discount of \$29,087 was charged to interest expense. The Company also recorded a debt issue discount of \$19,000, and amortized \$5,532 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$119,000, with a carrying value of \$34,619, net of unamortized discounts of \$84,381.

Also, on June 13, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$119,000. The note matures on June 13, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on June 13, 2019, when the Company received proceeds of \$100,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$100,000, an initial derivative expense of \$49,779 and an initial derivative liability of \$149,779. For the nine months ended September 30, 2019, amortization of the debt discount of \$29,087 was charged to interest expense. The Company also recorded a debt issue discount of \$19,000, and amortized \$5,532 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$119,000, with a carrying value of \$34,619, net of unamortized discounts of \$84,381.

On July 1, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$183,975. The note matures on July 1, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on July 1, 2019, when the Company received proceeds of \$150,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$150,000, an initial derivative expense of \$65,783 and an initial derivative liability of \$215,783. For the nine months ended September 30, 2019, amortization of the debt discount of \$37,398 was charged to interest expense. The Company also recorded debt issue discounts of \$33,975, and amortized \$8,478 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$183,975, with a carrying value of \$45,875, net of unamortized discounts of \$138,100.

On August 9, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$122,650. The note matures on August 9, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on August 9, 2019, when the Company received proceeds of \$100,000, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$100,000, an initial derivative expense of \$18,522 and an initial derivative liability of \$118,522. For the nine months ended September 30, 2019, amortization of the debt discount of \$13,879 was charged to interest expense. The Company also recorded debt issue discounts of \$22,650, and amortized \$3,146 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$122,650, with a carrying value of \$17,025, net of unamortized discounts of \$105,625.

On September 12, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$160,000. The note matures on September 12, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on September 12, 2019, when the Company received proceeds of \$130,050, after disbursements for the lender's transaction costs, fees and expenses. The embedded conversion feature included in the note resulted in an initial debt discount of \$130,050, an initial derivative expense of \$25,433 and an initial derivative liability of \$155,483. For the nine months ended September 30, 2019, amortization of the debt discount of \$6,485 was charged to interest expense. The Company also recorded debt issue discounts of \$29,950, and amortized \$1,495 to interest expense for the nine months ended September 30, 2019. As of September 30, 2019, the note balance is \$160,000, with a carrying value of \$7,979, net of unamortized discounts of \$152,021.

A summary of the convertible note balances as of September 30, 2019, and December 31, 2018, is as follows:

| | September 30, 2019 | December 31, 2018 |
|-----------------------|-----------------------|----------------------|
| Principal balance | \$ 3,168,650 | \$ 1,277,108 |
| Unamortized discounts | (1,754,975) | (1,125,942) |
| Ending balance, net | <u>\$ 1,413,675</u> | <u>\$ 151,166</u> |

The following is a summary of the Company's convertible notes and related discounts as of September 30, 2019:

| | Principal Balance | Debt Discounts | Total |
|-------------------------------|---------------------|-----------------------|---------------------|
| Balance at January 1, 2019 | \$ 1,277,108 | \$ (1,125,942) | \$ 151,166 |
| New issuances | 2,793,317 | (2,792,981) | 336 |
| Conversions | (901,775) | — | (901,775) |
| Amortization | — | 2,163,948 | 2,163,948 |
| Balance at September 30, 2019 | <u>\$ 3,168,650</u> | <u>\$ (1,754,975)</u> | <u>\$ 1,413,675</u> |

NOTE 13 – DERIVATIVE LIABILITIES

The Company determined that the conversion features of the convertible notes represented embedded derivatives since the Notes are convertible into a variable number of shares upon conversion. Accordingly, the notes are not considered to be conventional debt under EITF 00-19 and the embedded conversion feature is bifurcated from the debt host and accounted for as a derivative liability. Accordingly, the fair value of these derivative instruments is recorded as liabilities on the consolidated balance sheet with the corresponding amount recorded as a discount to each Note, with any excess of the fair value of the derivative component over the face amount of the note recorded as an expense on the issue date. Such discounts are amortized from the date of issuance to the maturity dates of the Notes. The change in the fair value of the derivative liabilities are recorded in other income or expenses in the condensed consolidated statements of operations at the end of each period, with the offset to the derivative liabilities on the balance sheet. See Note 12.

The Company used the Monte Carlo simulation valuation model with the following assumptions for new notes issued during the nine months ended September 30, 2019, risk-free interest rates from 1.78% to 2.59% and volatility of 172% to 387%, as of September 30, 2019, risk-free interest rates from 1.76% to 1.83% and volatility from 162% to 230%, and as of December 31, 2018, risk-free interest rates from 2.56% to 2.62% and volatility of 355% to 391%.

A summary of the activity related to derivative liabilities for the nine months ended September 30, 2019, is as follows:

| | September 30, 2019 |
|----------------------------------|-----------------------|
| Beginning Balance | \$ 1,807,404 |
| Initial Derivative Liability | 3,486,443 |
| Fair Value Change | (1,337,621) |
| Reclassification for conversions | (1,180,655) |
| Ending Balance | <u>\$ 2,775,571</u> |

The credit for derivative liability expense of \$159,617 for the nine months ended September 30, 2019, consisted of the initial derivative expense of \$1,178,004 offset by the above decrease in the fair value of \$1,337,621.

NOTE 14- OPERATING LEASE RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES

Operating lease right-of-use assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value is our incremental borrowing rate, estimated to be 7.5%, as the interest rate implicit in most of our leases is not readily determinable. Operating lease expense is recognized on a straight-line basis over the lease term. During the three and nine months ended September 30, 2019, the Company recorded \$100,240 and \$294,302, respectively, and \$47,937 and \$119,937 for the three and nine months ended September 30, 2018, respectively, as operating lease expense which is included in rent expense on the statements of operations and includes \$36,000 and \$108,000 of rent to a related party during the three and nine months ended September 30, 2019, and 2018, respectively.

On June 14, 2017, the company entered into a five-year lease with LLC1 (see Note 10) for approximately 6,944 square feet and a monthly rent of \$12,000.

On September 10, 2018, pursuant to the Amos Audiology acquisition, the Company assumed a lease dated December 1, 2017 and expiring April 30, 2023, in Walnut Creek, California. Lease payments in the first year of the lease are \$3,988 per month and increase by 3% on December 1 each new lease year. As of December 31, 2018, the Company was in arrears of \$25,182 (including late fees) in lease payments and has agreed with the landlord to pay the arrears in seven monthly payments of \$3,597 in addition to the monthly lease payments for January 2019 through July 2019.

On October 15, 2018, the Company entered into lease to operate a retail hearing aid clinic in Roseville, California expiring December 31, 2023. Initial lease payments of \$3,102 begin on January 1, 2019, and increase by 3% on January 1 each new lease year.

On December 1, 2018, the Company entered into lease to operate a retail hearing aid clinic in Sacramento, California expiring March 31, 2024. Initial lease payments of \$3,002 begin on April 1, 2019, and increase by 3.33% on April 1, 2020 and 2021, and by 3% on April 1, 2022.

On February 1, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Elk Grove, California expiring January 31, 2024. Initial lease payments of \$2,307 begin on February 1, 2019, and increase by an average of 2.6% on February 1, each new lease year.

On February 1, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Fremont, California expiring February 28, 2021. Initial lease payments of \$2,019 begin on March 1, 2019, and increases by 3% on March 1, 2020.

On April 15, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Pleasanton, California expiring April 30, 2024. Initial lease payments of \$3,550 begin on May 1, 2019, and increases by 3% on each new lease year throughout the term.

On June 1, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Hayward, California expiring December 31, 2020. Initial lease payments of \$1,816 begin on June 1, 2019, and increases to \$1,871 on January 1, 2020.

On June 1, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Santa Rosa, California expiring June 30, 2023. Initial lease payments of \$2,327 begin on June 1, 2019, and increases by approximately 2.5% annually beginning on July 1, 2020.

On July 1, 2019, the Company entered into a lease to operate a retail hearing aid clinic in Sacramento, California expiring June 30, 2022. Initial lease payments of \$1,450 begin on July 1, 2019, and increases by approximately 5.0% annually beginning on July 1, 2020.

In adopting ASC Topic 842, Leases (Topic 842), the Company has elected the ‘package of practical expedients’, which permit it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter is not applicable to the Company. In addition, the Company elected not to apply ASC Topic 842 to arrangements with lease terms of 12 month or less. During the nine months ended September 30, 2019, upon adoption of ASC Topic 842, the Company recorded right-of-use assets and lease liabilities of \$1,473,250.

Right-of- use assets are summarized below:

| | September 30, 2019 |
|-------------------------------|-----------------------|
| Office and retail leases | \$ 1,473,250 |
| Less accumulated amortization | (199,409) |
| Right-of-us assets, net | <u>\$ 1,273,841</u> |

Operating lease liabilities are summarized as follows:

| | September 30, 2019 |
|----------------------|-----------------------|
| Lease liability | \$ 1,290,348 |
| Less current portion | (345,106) |
| Long term portion | <u>\$ 945,242</u> |

Maturity of lease liabilities are as follows:

| | Amount |
|---|---------------------|
| For the three months ending December 31, 2019 | \$ 107,162 |
| For the year ending December 31, 2020 | 432,415 |
| For the year ending December 31, 2021 | 396,545 |
| For the year ending December 31, 2022 | 317,785 |
| For the year ending December 31, 2023 | 184,327 |
| Thereafter | 44,392 |
| Total | \$ 1,482,626 |
| Less: present value discount | (192,278) |
| Lease liability | <u>\$ 1,290,348</u> |

NOTE 15– COMMITMENTS AND CONTINGENCIES

Consulting Agreements

On August 9, 2018, the Company entered into a monthly Consulting Services Master Agreement (the “CSMA”). The CSMA requires a two- month minimum and a 30- day termination notice. Pursuant to the CSMA, the Company is to compensate the consultant \$12,500 per month by the issuance of restricted shares of common stock, based on the average closing trading prices for the three days prior to each monthly payment. For the nine months ended September 30, 2019, the Company issued 515,818 shares of common stock under the CSMA and the parties agreed to terminate the CSMA.

On August 15, 2018, the Company entered into a six-month Consulting Agreement (the “CA”). Pursuant to the CA, the Company agreed to issue 2,500,000 shares of restricted common stock to the consultant.

On October 3, 2018, the Company entered into a Manufacturing Design and Marketing Agreement (the “Agreement”) with Zounds, whereby, Zounds will provide design, technology, manufacturing and supply chain services to the Company, to enable the Company to manufacture comparable hearing aids and related components and accessories to be sold under the Company’s exclusive brand names (the “Manufacturer’s Products”) through the Company’s various marketing and distribution channels. The Company will pay Zounds One Million (\$1,000,000) (the “Technology Access Fee”). The Technology Access Fee, as amended will be paid in eight (8) installments of \$75,000 each, in four-week intervals until \$600,000 is paid and \$400,000 is to be paid as Product Surcharges based on \$200 per unit manufactured for up to the first 2,000 units. Once \$400,000 of Product Surcharges are paid said per unit surcharge will be discontinued. During the nine months ended September 30, 2019, the Company has paid \$280,800 towards the Technology Access Fee and as of September 30, 2019, and December 31, 2018, approximately \$536,000 and \$816,800 is included in accounts payable and accrued expenses, respectively.

On October 31, 2018, the Company entered into a three-year Joint Development Agreement (the “JD Agreement”) and an Exclusive Distribution Agreement (the “ED Agreement”) with Erchonia Corporation (“Erchonia”). As part of the JD Agreement, the Company and Erchonia will conduct FDA clinical research and trials for the purposes of obtaining 510k FDA Clearances for devices, technologies, methods and techniques used in the treatment of hearing relating conditions and disorders such as Tinnitus, Sensorineural hearing Loss, dizziness and other disorders. The agreements give the Company the exclusive worldwide rights for all designs and any newly developed Erchonia 3LT lasers and related technologies and gives the Company the rights to license and distribute such products worldwide. Pursuant to the JD Agreement, the Company has agreed to issue 1,000,000 shares of common stock. The Company valued the common stock to be issued at \$60,000, based on the market price of the common stock on the date of the JD Agreement, to be amortized over the three-year term. For the three and nine months ended September 30, 2019, the Company amortized \$5,000 and \$18,333, respectively, as stock-based compensation. As of September 30, 2019, there remains \$41,667, of deferred stock compensation on the condensed consolidated balance sheet, to be amortized over the three-year contract term.

On December 7, 2018, the Company entered into a one- year consulting agreement (the “Media Consulting Agreement”) with a third- party consultant (the “Consultant”). The Consultant will provide communication and broadcast services, as well as strategic planning services. Pursuant to the Media Consulting Agreement, the Company has agreed to issue the Consultant 3,125,000 shares of restricted common stock. On December 7, 2018, the Company recorded 3,125,000 shares of common stock to be issued. The Company valued the common stock to be issued at \$125,000 based on the market price of the common stock on the date of the Media Consulting Agreement, to be amortized over the term of the agreement. The Company issued 1,712,329 of the shares and there remain 1,412,671 shares to be issued. The Company amortized \$31,250 and \$93,750 for the three and nine months ended September 30, 2019, respectively, and is included in Professional fees on the condensed consolidated Statement of operations. As of September 30, 2019, there remains \$23,611 of deferred stock compensation on the consolidated balance sheet, to be amortized in 2019.

On April 1, 2019, the Company entered into a six- month consulting agreement with a third- party consultant (the “Consultant”). The Consultant will provide consulting services related to the conception and implementation of the Company’s business development plan, as well as other strategic planning services. Pursuant to the agreement, the Company issued the Consultant 2,000,000 shares of restricted common stock. The Company valued the common stock at \$128,000 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement. The Company amortized \$64,000 and \$128,000, respectively for the three and nine months ended September 30, 2019, and is included in Professional fees on the condensed consolidated Statement of operations..

On April 3, 2019, the Company entered into a six- month consulting agreement with a third- party consultant (the “Consultant”). The Consultant will provide consulting services related to the conception and implementation of the Company’s marketing plans, promoting the goals and objectives of the Company. Pursuant to the agreement, the Company paid \$20,000 and issued 1,000,000 shares of restricted common stock to the Consultant. The Company valued the common stock at \$75,000 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement. The Company amortized \$37,500 and \$75,000, respectively, for the three and nine months ended September 30, 2019, and is included in Professional fees on the condensed consolidated Statement of operations.

On April 17, 2019, the Company entered into a six- month consulting agreement with a third- party consultant (the “Consultant”). The Consultant will provide consulting services related to the corporate communications. Pursuant to the agreement, the Company issued 1,000,000 shares of restricted common stock to the Consultant. The Company valued the common stock at \$67,500 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement. The Company amortized \$33,750 and \$61,875, respectively, for the three and nine months ended September 30, 2019, and is included in Professional fees on the condensed consolidated Statement of operations. As of September 30, 2019, there remains \$5,625 of deferred stock compensation on the consolidated balance sheet, to be amortized in 2019.

Legal Matters

On May 26, 2017, Helix Hearing Care (California), Inc. a California corporation (“Helix”), filed a complaint (the “Complaint”) against the InnerScope and the Moores, in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida, that includes a rescission of the Consulting Agreement and a demand that all monies paid pursuant to the Consulting Agreement be returned, on the basis that an injunction against certain Officers and Directors renders the Consulting Agreement impossible to perform. The Company had previously received \$1,250,000 under the Consulting Agreement. InnerScope was not named as an enjoined party in such previous litigation, and the services contemplated under the Consulting Agreement are not within the scope of the injunction, thus InnerScope believes the accusation by the third party is frivolous and without merit, as well as not providing sufficient cause for the Agreement to be terminated. InnerScope and the Moores filed their Answer and Affirmative Defenses to the Complaint on June 27, 2017. On the same date, InnerScope, the Moores, and MFHC filed a counterclaim. On February 27, 2018, the Counterclaim was amended to include four claims for breach of contract, one claim for anticipatory breach of contract, one claim for negligent misrepresentation, and one claim for account stated. On August 13, 2018, Helix, the Company and the Moores signed a Settlement Agreement, whereby, the Company received \$450,000, both parties dismissing all claims against the other party with prejudice and Matthew, Mark and Kimberly have been released from their covenant not to compete agreement signed in August 2016 with Helix.

NOTE 16 – STOCKHOLDERS’ EQUITY

Preferred Stock

The Company has 25,000,000 authorized shares of \$0.0001 preferred stock.

Series A Preferred Stock

On June 4, 2018, the Company filed in the State of Nevada a Certificate of Designation of a series of preferred stock, the Series A Preferred Stock. 9,510,000 shares were designated as Series A Preferred Stock. The Series A Preferred Stock has mandatory conversion rights, whereby each share of Series A Preferred Stock will convert two (2) shares of common stock upon the Company filing Amended and Restated Articles of Incorporation with the Secretary of State of Nevada, increasing the authorized shares of common stock. The Series A Preferred Stock has voting rights on an as if converted basis. The Series A Preferred Stock does not have any right to dividends. On June 4, 2018 the Company issued 3,170,000 shares of Series A Preferred Stock each to Matthew, Mark and Kimberly, in exchange for each of them cancelling and returning to treasury 6,340,000 shares of common stock. The issuances were made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, and Rule 506(b) promulgated thereunder, as the shareholders are accredited investors, there was no general solicitation, and the transaction did not involve a public offering. On August 8, 2018, Matthew, Mark and Kim each converted 3,170,000 shares of Series A Preferred Stock for 6,340,000 shares of common stock. The common stock issued replaced the 19,010,000 shares in the aggregate that the Moore’s cancelled in June 2018. As of September 30, 2019, and December 31, 2018, there were no shares of Series A Preferred Stock issued and outstanding.

Series B Preferred Stock

On June 4, 2018, the Company also filed in the State of Nevada a Certificate of Designation of a series of preferred stock, the Series B Preferred Stock. 900,000 shares were designated as Series B Preferred Stock. The Series B Preferred Stock is not convertible into common stock, nor does the Series B Preferred Stock have any right to dividends and any liquidation preference. The Series B Preferred Stock entitles its holder to a number of votes per share equal to 1,000 votes. On June 4, 2018, the Company issued 300,000 shares of its Series B Preferred Stock each to Matthew, Mark and Kimberly, in consideration of \$45,000 of accrued expenses, the Company's failure to timely pay current and past salaries, and the willingness to accrue unpaid payroll and non-reimbursement of business expenses without penalty or action for all amounts. The issuances were made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, and Rule 506(b) promulgated thereunder, as the shareholders are accredited investors, there was no general solicitation, and the transaction did not involve a public offering. The Company determined that fair value of the Series B Preferred Stock issued to the Company's CEO was \$817,600. The fair value was determined as set forth in the Statement of Financial Accounting Standard ASC 820-10-35-37, Fair Value in Financial Instruments. As of September 30, 2019, and December 31, 2018, there were 900,000 shares of Series B Preferred Stock issued and outstanding.

Common Stock

On August 26, 2019, the Company filed Amended and Restated Articles of Incorporation (the "Amendment") with the Nevada Secretary of State, pursuant to which the Company increased the authorized shares of capital stock of the Company to 1,000,000,000, consisting of 975,000,000 shares of common stock, par value \$0.0001, and 25,000,000 shares of preferred stock, par value \$0.0001.

The Company has 975,000,000 authorized shares of \$0.0001 common stock. As of September 30, 2019, and December 31, 2018, there are 220,613,389 and 120,425,344, respectively, shares of common stock outstanding.

On January 24, 2019, the Company issued 515,818 shares of restricted common stock pursuant to the CSMA (See Note 15). The shares were valued at \$12,500 based on the average closing price for the three days prior to the effective date of the CSMA.

During the nine months ended September 30, 2019, the Company issued 3,961,177 shares of common stock that were classified as common stock to be issued as of December 31, 2018.

During the nine months ended September 30, 2019, the Company issued 75,528 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$10,000 of stock, over a twelve-month period starting November 2018 based on continual employment, based on the average closing price of the Company's common stock for the 3 days prior to employment, and accordingly recorded stock-based compensation of \$2,500 and \$5,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the condensed consolidated statement of operations, included herein.

During the nine months ended September 30, 2019, the Company issued 208,332 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock, over a twelve-month period based on continual employment, based on the highest closing price of the Company's common stock for the 5 days prior to employment, and accordingly recorded stock-based compensation of \$5,000 and \$10,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the condensed consolidated statement of operations, included herein.

During the nine months ended September 30, 2019, the Company issued 168,540 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$10,000 of stock, over a twelve-month period based on continual employment, based on the average closing price of the Company's common stock for the 3 days prior to employment, and accordingly recorded stock-based compensation of \$2,500 and \$5,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the condensed consolidated statement of operations, included herein.

During the nine months ended September 30, 2019, the Company issued 128,808 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock over a six-month period starting November 2018 based on continual employment, based on the average closing price of the Company's common stock for the 3 days prior to employment, and accordingly recorded stock-based compensation of \$5,000 and \$10,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the condensed consolidated statement of operations, included herein.

During the nine months ended September 30, 2019, the Company issued 128,808 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock over a six- month period starting November 2018 based on continual employment, based on the average closing price of the Company's common stock for the 3 days prior to employment. This employee was terminated in July 2019. The Company recorded stock-based compensation of \$5,000 and \$10,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the condensed consolidated statement of operations, included herein.

During the nine months ended September 30, 2019, the Company issued 227,274 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock, over a twelve- month period based on continual employment, based on the highest closing price of the Company's common stock for the 5 days prior to employment, and accordingly recorded stock-based compensation of \$5,000 and \$10,000 for the three and nine months ended September 30, 2019, included in Compensation and benefits in the consolidated statement of operations, included herein.

On April 1, 2019, the Company issued the to a consultant 2,000,000 shares of restricted common stock. The Company valued the common stock at \$128,000 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement.

On April 2, 2019, the Company issued 625,000 shares of restricted common stock in settlement of \$25,000 of accounts payable owed. The Company valued the stock at \$40,625 based on the market price of the common stock on the date of the agreement. The Company recorded a loss on debt extinguishment of \$15,625 related to the issuance of 625,000 shares.

On April 3, 2019, the Company issued 1,000,000 shares of restricted common stock to a consultant. The Company valued the common stock at \$75,000 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement.

On April 17, 2019, the Company issued 1,000,000 shares of restricted common stock to a consultant. The Company valued the common stock at \$67,500 based on the market price of the common stock on the date of the agreement, to be amortized over the term of the agreement.

On May 22, 2019, the Company issued 666,666 shares of restricted common stock to a consultant for financial services provided. The Company valued the common stock at \$32,000 based on the market price of the common stock on the date of the agreement, and is included in stock-based compensation expense for the nine months ended September 30, 2019.

During the nine months ended September 30, 2019, the Company issued 88,751,413 shares of common stock for conversion of \$901,775 of principal and \$55,685 of accrued interest and fees, for a total of \$957,460.

Common Stock to be issued

During the nine months ended September 30, 2019, the Company issued 3,961,177 shares of common stock that were classified as common stock to be issued as of December 31, 2018.

During the nine months ended September 30, 2019, the Company recorded 654,240 shares of common stock to be issued to employees as part of their compensation. The Company agreed to issue stock, over a twelve- month period based on continual employment, based on their offer of employment, and, accordingly, recorded \$25,000 for the three and nine months ended September 30, 2019, for the common stock to be issued (issued on October 9, 2019).

As of September 30, 2019, there were 3,066,912 shares of common stock to be issued.

NOTE 17 – SUBSEQUENT EVENTS

From August 1, 2019, through November 11, 2019, the Company received conversion notices for the issuances of 26,886,621 shares of common stock for conversion of \$83,333 of principal and \$5,679 of accrued interest on convertible notes.

On October 3, 2019, the Company issued an 8% convertible promissory note (the "Master Note") in the aggregate principal amount of up to \$150,000 in exchange for an aggregate purchase price of up to \$135,000 with an original issue discount of \$15,000 to cover the Investor's accounting fees, due diligence fees, monitoring and other transactional costs incurred in connection with the purchase and sale of the Master Note, which is included in the principal balance of the Note. On October 3, 2019, the Investor funded the first tranche under the Master Note, and the Company received \$65,000 (after payment of \$2,000 of the Investor's legal fees) for this first tranche of \$75,000 under the Master Note and on the same date, the Company issued the Note to the Investor. The Note is convertible into shares of the Company's common stock, at a conversion price equal to the lesser of (1) 70% of the lowest trading price or lowest closing bid price during the previous 15 trading day period ending on the last completed trading date prior to the issuance of the Master Note and (2) 70% multiplied by the lower of the lowest trading price or lowest closing bid price of the Company's common stock during the 15 day trading period ending on the latest completed trading day of the common stock prior to the date of conversion of the Master Note.

On October 9, 2019, the Company issued 654,240 shares of restricted common stock to employees (see note 16).

On October 18, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$100,000, with an original issue discount of \$10,000. The note matures on October 18, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on October 18, 2019, when the Company received proceeds of \$85,500, after disbursements for the lender's transaction costs, fees and expenses.

On November 1, 2019, the Company issued to a third-party investor a convertible redeemable note (the "Note") with a face value of \$57,750, with an original issue discount of \$5,250. The note matures on November 1, 2020, has a stated interest of 8% and is convertible at any time following the funding of such note into a variable number of the Company's common stock, based on a conversion ratio of 70% of the lowest closing bid price for the 15 days prior to conversion. The note was funded on November 1, 2019, when the Company received proceeds of \$50,000, after disbursements for the lender's transaction costs, fees and expenses.

On November 1, 2019, the Company entered into a Payment Rights Purchase and Sale Agreement for \$87,000 with a third-party, whereby the Company received \$58,260, after disbursements for the lender's transaction costs, fees and expenses on November 1, 2019. The agreement requires the Company to make daily payments of \$791 over the 5 month term of the agreement.

The Company has evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. The Company has determined that there are no other such events that warrant disclosure or recognition in the financial statements, except as stated herein.

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

The following is management’s discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of our current management. This report includes forward-looking statements. Generally, the words “believes,” “anticipates,” “may,” “will,” “should,” “expect,” “intend,” “estimate,” “continue,” and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents we file with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and notes thereto for the years ended December 31, 2018 and 2017 and filed by the Company on Form 10-K with the Securities and Exchange Commission on April 16, 2019.

This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future.

While our financial statements are presented on the basis that we are a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time, our independent auditor’s report on our financial statements for the years ended December 31, 2018 and 2017 includes a “going concern” explanatory paragraph that describes substantial doubt about our ability to continue as a going concern. Management’s plans in regard to the factors prompting the explanatory paragraph are discussed below and also in Note 4 to the unaudited condensed consolidated financial statements.

Corporate History and Current Business

InnerScope Hearing Technologies, Inc. (“Company”, “InnerScope”) is a Nevada Corporation incorporated on June 15, 2012, with its principal place of business in Roseville, California. The Company was originally named InnerScope Advertising Agency, Inc. and was formed to provide advertising and marketing services to retail establishments in the hearing device industry. On August 25, 2017, the Company changed its name to InnerScope Hearing Technologies, Inc. to better reflect the Company’s current direction as a technology driven company with a scalable business to business (BTB) solution and business to consumer (and BTC) solution. The Company also competes in the DTC (Direct-to-Consumer) markets with its own line of “Hearables”, and “Wearables”, including APPs on the iOS and Android markets. On September 10, 2018, the Company acquired all of the assets and assumed certain liabilities of Kathy L Amos Audiology (“Amos Audiology”) in exchange for 340,352 shares of common stock (the “Acquisition”). Amos Audiology provides retail hearing aid sales and audiological services in the East Bay area of San Francisco. Additionally, the Company has opened 9 retail hearing device clinics, manages two clinics owned by a related party and plans on using management’s unique and successful talents on acquiring and opening additional audiological brick and mortar clinics to be owned and operated by the Company.

Results of Operations

For the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018

Revenues

Revenues for the three and nine months ended September 30, 2019 were \$250,781 and \$656,983, respectively, compared to \$59,724 and \$165,715 for the three and nine months ended September 30, 2018, respectively. The revenue increase was primarily the result of the sales from retail clinics during the three and nine month periods ending September 30, 2019, partially offset by a decrease in direct print and mail services for the three and nine months ending September 30, 2019. The Company is focusing on the higher margins associated with the sales of hearing aids and hearing aid products. A breakdown of the net increase in sales is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Retail clinic sales | \$ 234,480 | \$ — | \$ 617,381 | \$ — |
| Online sales | 16,301 | 44,724 | 24,602 | 63,247 |
| Direct print, mail services and product | — | — | — | 35,449 |
| Sub total | <u>250,781</u> | <u>44,724</u> | <u>641,983</u> | <u>98,696</u> |
| Related party- direct print and mail services | — | — | — | 22,019 |
| Related party-Marketing and consulting fee | — | 15,000 | 15,000 | 45,000 |
| Sub total | <u>—</u> | <u>15,000</u> | <u>15,000</u> | <u>67,019</u> |
| Total revenues | <u>\$ 250,781</u> | <u>\$ 59,724</u> | <u>\$ 656,983</u> | <u>\$ 165,715</u> |

Retail clinic sales

Retail clinic sales will continue to grow as the Company has opened 8 retail clinics in 2019, bringing the current total to 9 clinics.

Online sales

Beginning in the second quarter of 2018, the Company began to market a line of PSAP hearables and wearables and during the third quarter of 2018, expanded their line of products to include FDA registered hearing aid devices. Online sales are down in the current periods due to the marketing resources being reallocated to the Retail Centers sales operations. Online marketing platforms are ready to go with the potential of revenue increases, once the company has the proper capital resources to be allocated to online marketing. Online sales will be a major part and focus of management once the company is properly capitalized.

Related Party

On December 24, 2016, Moore Holdings, LLC. (“Moore Holdings”) acquired two retail stores from the buyer of the MFHC stores. On March 1, 2017, the Company entered into a twelve- month Marketing Agreement with each of the stores to provide telemarketing and design and marketing services for \$2,500 per month per store, resulting in \$15,000 of revenues for the nine months ended September 30, 2019, and \$15,000 and \$45,000 for the three and nine months ended September 30, 2018, respectively. The Marketing Agreement is currently on a month to month basis. As of April 1, 2019, the Company stopped recording the marketing income and will only record such income going forward based on payments received from the related party. For the nine months ended September 30, 2018, the Company also provided direct print and mailing services for the two retail sales and recognized revenue of \$22,019, for the services.

Cost of sales

The Company records cost of sales on products sold in the retail clinics on delivery to the customer and for online sales, when shipped. We recognize the costs of designing, producing, printing and mailing advertisements for our client’s direct mail marketing campaigns in cost of sales in the month of the mailing as well as the licensing of telemarketing software. Cost of sales for the three and nine months ended September 30, 2019, was \$103,010 and \$284,837, respectively, compared to \$29,085 and \$99,751 for the three and nine months ended September 30, 2018, respectively.

Operating Expenses

Operating expenses were \$1,002,985 and \$3,118,674 for the three and nine months ended September 30, 2019, respectively, compared to \$482,705 and \$2,085,980 for the three and nine months ended September 30, 2018, respectively. The increase in expenses in the current periods was as follows:

| Description | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Compensation and benefits | \$ 462,770 | \$ 177,778 | \$ 1,261,954 | \$ 1,263,084 |
| Stock compensation service providers | 171,500 | 62,597 | 479,791 | 126,837 |
| Professional fees | 26,232 | 112,355 | 95,258 | 279,021 |
| Advertising and promotion | 92,966 | 62,937 | 404,550 | 137,736 |
| Investor relations | 11,297 | 11,482 | 176,073 | 87,901 |
| Rent, including related party of \$36,000 for three months (2018 and 2019) and \$108,000 for nine months (2018 and 2019) | 100,240 | 39,998 | 294,302 | 111,988 |
| Other General and administrative | 137,980 | 15,568 | 407,105 | 79,413 |
| Total | \$ 1,002,985 | \$ 482,705 | \$ 3,118,674 | \$ 2,085,980 |

Compensation and benefits increased in the current three month period and was substantially the same for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The Company acquired Amos Audiology in September 2018 as well as having opened two retail clinics in 2018, compared to having a total of nine clinics as of September 30, 2019, all of which required staffing as well as additional office support staff. Included in compensation and benefits is stock issued to employees for \$25,000 and \$75,000 for the three and nine months ended September 30, 2019, respectively, and \$772,600 for the nine months ended September 30, 2018. On June 4, 2018, the Company issued 300,000 shares of its Series B Preferred Stock each to Matthew, Mark and Kimberly, in consideration of \$45,000 of accrued expenses, the Company's failure to timely pay current and past salaries, and the willingness to accrue unpaid payroll and non-reimbursement of business expenses without penalty or action for all amounts. The Company determined that fair value of the Series B Preferred Stock issued to the Company's CEO was \$817,600, and accordingly \$772,600 is included in stock compensation expense for the three and six months ended June 30, 2018. The fair value was determined as set forth in the Statement of Financial Accounting Standard ASC 820-10-35-37, Fair Value in Financial Instruments.

Stock based compensation to service providers of \$171,500 and \$479,791 for the three and nine months ended September 30, 2019, respectively, is comprised of:

- The amortization of deferred stock compensation of \$171,500 and \$435,291 for the three and nine months ended September 30, 2019.
- On January 24, 2019, the Company issued 515,818 shares of restricted common stock pursuant to a consultant agreement. The shares were valued at \$12,500 and included in stock-based compensation expense for the nine months ended September 30, 2019, based on the average closing price for the three days prior to the effective date of the consultant's agreement.
- On May 22, 2019, the Company issued 666,666 shares of restricted common stock for financial services performed. The shares were valued at \$32,000 and included in stock-based compensation expense for the nine months ended September 30, 2019.

Stock based compensation for the three and nine months ended September 30, 2018, is comprised of:

- On February 23, 2018, the Company issued 111,111 shares of common stock to a marketing consultant. The shares were valued at \$7,778, based on the market price of the common stock on January 31, 2018, the date the Company agreed to issue the shares and are included in the nine months ended September 30, 2018.
- On February 23, 2018, the Company issued 10,397 shares of common stock to an employee. The shares were valued at \$728, based on the market price of the common stock on January 31, 2018, the date the Company agreed to issue the shares and are included in the nine months ended September 30, 2018.
- On February 28, 2018, the Company recorded 133,067 shares of common stock to be issued to a marketing consultant (see Note 12) and recorded \$8,117 of stock-based compensation expense (based on the market price of the common stock on that date) and are included in the nine months ended September 30, 2018.

- On March 31, 2018, the Company recorded 133,333 shares of common stock to be issued to the same marketing consultant and recorded \$9,067 of stock-based compensation expense (based on the market price of the common stock on that date) and are included in the nine months ended September 30, 2018.
- The amortization of deferred stock compensation of \$25,000 is included in the nine months ended September 30, 2018.
- On April 30, 2018, the Company recorded 166,667 shares of common stock to be issued to the same marketing consultant and recorded \$6,883 of stock-based compensation expense (based on the market price of the common stock on that date) and is included in the nine months ended September 30, 2018.
- On May 31, 2018, the Company recorded 380,952 shares of common stock to be issued to the same marketing consultant and recorded \$6,667 of stock-based compensation expense (based on the market price of the common stock on that date) and is included in the nine months ended September 30, 2018.
- On August 27, 2018, the Company issued 100,000 shares of restricted common stock to a consultant pursuant to the CPRM Agreement (See Note 13). The shares were valued at \$8,430 of stock-based compensation expense (based on the market price of the common stock on that date) and is included in the three and nine months ended September 30, 2018.
- On August 27, 2018, the Company issued 129,534 shares of restricted common stock pursuant to the CSMA (See Note 13). The shares were valued at \$12,500 based on the average closing price for the three days prior to the effective date of the CSMA and is included in the three and nine months ended September 30, 2018.
- On August 27, 2018, the Company issued 2,500,000 shares of restricted common stock pursuant to the CA (See Note 13). The shares were valued at \$175,000 based on the market price of the common stock, and were recorded as deferred stock compensation on the condensed consolidated balance sheet presented herein, and will be amortized to stock compensation expense over the term of the CA. For the three and nine months ended September 30, 2018, the Company amortized \$29,167 to stock compensation expense.
- On September 7, 2018, the Company recorded 129,534 shares of restricted common stock to be issued pursuant to the CSMA (See Note 13). The shares were valued at \$12,500 based on the average closing price for the three days prior to the effective date of the CSMA and is included in the three and nine months ended September 30, 2018. The shares were certificated on October 9, 2018.

Professional fees, excluding stock based compensation to service providers discussed above, for the three and nine months ended September 30, 2019, were \$26,232 and \$95,258, respectively, compared to \$112,355 and \$279,021 for the three and nine months ended September 30, 2018, respectively. Professional fees consisted of:

| Description | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Legal fees | \$ 1,094 | \$ 38,893 | \$ 10,322 | \$ 106,061 |
| Business consulting | — | 51,250 | 1,455 | 95,374 |
| Accounting and auditing fees | 25,000 | 18,500 | 79,000 | 65,500 |
| Information technology | 138 | 3,712 | 4,481 | 12,086 |
| Total | <u>\$ 26,232</u> | <u>\$ 112,355</u> | <u>\$ 95,258</u> | <u>\$ 279,021</u> |

Advertising and marketing expenses increased in the three and nine months ended September 30, 2019, as a result of the Company heavily promoting their retail clinics. The costs include direct mail advertising as well as newspaper print advertising.

Rent, including related party, increased for the three and nine months ended September 30, 2019, compared to the three and nine months ended September 30, 2018 as a result of the eight leases related to the Company's retail clinics in the 2019 periods, none of which were open during the 2018 periods.

Other income (expense), net

Other expenses, net, were \$616,833 and \$2,233,968 for the three and nine months ended September 30, 2019, respectively, compared to other income, net of \$661,739 and other expense, net of \$321,281 for the three and nine months ended September 30, 2018, respectively. Interest expense of \$1,109,565 and \$2,344,763, respectively, including amortization of debt discounts increased significantly compared to interest expense of \$399,278 and \$713,070 for the three and nine months ended September 30, 2018, respectively. For the three and nine months ended September 30, 2019, a credit to derivative expenses of \$501,977 and \$159,617, respectively, compared to derivative expenses of \$270,849 and \$940,819 for the three and nine months ended September 30, 2018, respectively. Also included in other expenses for the nine months ended September 30, 2019, was a loss on extinguishment of debt of \$44,393. Included in other income for the three and nine months ended September 30, 2018 was \$1,297,223 as a result of the Helix settlement, whereby the Company recognized \$847,223 previously classified as deferred revenues and \$450,000 of cash received from the settlement. There was a gain on debt extinguishment of \$33,775 for the three and nine months ended September 30, 2018.

Net loss

Net loss for the three and nine months ended September 30, 2019, was \$1,472,047 and \$4,980,496, respectively, compared to net income of \$209,673 and net loss of \$2,341,296 for the three and nine months ended September 30, 2018, respectively, as a result of the changes in operating and other expenses as described above.

Capital Resources and Liquidity

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs to pay ongoing obligations. As of September 30, 2019, we had cash of \$10,477, a decrease of \$77,348, from \$87,826 as of December 31, 2018. As of September 30, 2019, we had current liabilities of \$6,305,030 (including derivative liabilities of \$2,775,571) compared to current assets of \$700,298 which resulted in working capital deficit of \$5,604,732. The current liabilities are comprised of accounts payable, accrued expenses, notes payable, convertible notes payable, operating lease liabilities, customer deposits, salaries and taxes payable, and derivative liabilities.

Our ability to operate over the next twelve months, is contingent upon continuing to realize sales revenue sufficient to fund our ongoing expenses. If we are unable to sustain our ongoing operations through sales revenue, we intend to fund operations through debt and/or equity financing arrangements, which may be insufficient to fund our working capital, or other cash requirements. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all. Since September 30, 2019, we generated cash flows of \$248,500, from the issuance of \$232,750 of convertible notes and \$60,000 note payable and approximately \$75,000 received from the sales of hearing aid products. We do not have any formal commitments or arrangements for the sales of stock or the advancement or loan of funds at this time.

Operating Activities

Cash used in operating activities was \$2,282,036 for the nine months ended September 30, 2019 compared to \$628,362 for the nine months ended September 30, 2018. For the nine months ended September 30, 2019, the cash used in operations was a result of the net loss of \$4,980,496, a credit to derivative expense of \$159,617 and the changes in operating assets and liabilities of \$248,817, partially offset by the non- cash expense items of depreciation, amortization and amortization of debt discounts of \$2,500,782 and stock- based compensation of \$554,791. For the nine months ended September 30, 2018, the cash used in operations was a result of the net loss of \$2,341,296, the recognition of \$847,223 of deferred revenue and increases in assets of \$66,063, offset by increases in liabilities of \$200,161 and the non- cash expense items of depreciation and amortization of \$621,189, derivative expense of \$940,819 and stock- based compensation of \$899,437.

Investing Activities

Cash used in investing activities was \$73,095 for the nine months ended September 30, 2019, and consisted of purchases of equipment of \$49,614 and payments of \$23,481 for security deposits. There was no investing activity for the nine months ended September 30, 2018.

Financing Activities

For the nine months ended September 30, 2019, cash provided by financing activities was \$2,277,783 compared to \$608,526 for the nine months ended September 30, 2018. For the nine months ended September 30, 2019, the Company has received \$2,308,775, net of debt issuance costs, from the issuance of \$2,793,117 of convertible notes and cash of \$89,100, net of debt issuance costs, from the issuance of note payables of \$115,473. For the nine months ended September 30, 2019, the Company made payments of \$102,530 on notes payable and net payments to shareholders of \$17,562. For the nine months ended September 30, 2018, the Company has received \$772,500 from the issuance of \$860,300 of convertible notes, cash of \$32,600 from the issuance of a note of \$43,358, and related party notes payable issued of in the aggregate of \$32,600. For the nine months ended September 30, 2018, the Company made principal payments of \$149,546 on convertible notes, \$55,578 on notes payable and \$6,000 paid on related party notes payable.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

Critical Accounting Policies

Basis of presentation

The accompanying condensed consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"). The condensed consolidated financial statements of the Company include the consolidated accounts of InnerScope and its' wholly owned subsidiaries ILLC and Intela-Hear, a California limited liability company. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606") and all the related amendments. The Company elected to adopt this guidance using the modified retrospective method. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company's contracts with customers are generally on a purchase order basis and represent obligations that are satisfied at a point in time, as defined in the new guidance, generally upon delivery or has services are provided. Accordingly, revenue for each sale is recognized when the Company has completed its performance obligations. Any costs incurred before this point in time, are recorded as assets to be expensed during the period the related revenue is recognized. The Company accepts prepayments on hearing aids and records the amount received as customer deposits on its' balance sheet. When the Company delivers the hearing aid to the customer, revenue is recognized as well as the corresponding cost of sales.

Income taxes

The Company uses the liability method of accounting for Income Taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance can be provided for a net deferred tax asset, due to uncertainty of realization.

Net loss per common share

The Company reports earnings (loss) per share in accordance with ASC 260, "Earnings per Share." Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net loss by the weighted-average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding during the period. As of September 30, 2019, and 2018, the Company's outstanding convertible debt is convertible into approximately 393,621,118 and 16,998,883 shares of common stock, subject to adjustment based on changes in the Company's stock price, respectively. This amount is not included in the computation of dilutive loss per share because their impact is antidilutive.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated to allow our management to make timely decisions regarding required disclosure. Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report and he determined that our disclosure controls and procedures were not effective due to control deficiencies. During the period we did not have additional personnel to allow segregation of duties to ensure the completeness or accuracy of our information. The Company does not have an Audit Committee to oversee management activities, and the Company is dependent on third party consultants for the financial reporting function.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On May 26, 2017, Helix Hearing Care (California), Inc. a California corporation (“Helix”), filed a complaint (the “Complaint”) against the InnerScope and the Moores, in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida, that includes a rescission of the Consulting Agreement, on the basis that an injunction against certain Officers and Directors renders the Consulting Agreement impossible to perform. InnerScope was not named as an enjoined party in such previous litigation, and the services contemplated under the Consulting Agreement are not within the scope of the injunction, thus InnerScope believes the accusation by the third party is frivolous and without merit, as well as not providing sufficient cause for the Agreement to be terminated.

InnerScope and the Moores filed their Answer and Affirmative Defenses to the Complaint on June 27, 2017. On the same date, InnerScope, the Moores, and MFHC filed a counterclaim. On February 27, 2018, the Counterclaim was amended to include four claims for breach of contract, one claim for anticipatory breach of contract, one claim for negligent misrepresentation, and one claim for account stated. On August 13, 2018, Helix, InnerScope and the Moores executed a Settlement Agreement.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Act of 1934 and are not required to provide the information under this item.

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

On July 5, 2019, the Company issued 64,404 shares of common stock each to two employees as part of their compensation. The Company agreed to issue \$20,000 of stock over a twelve-month period based on continual employment, to each, based on the average closing price of the Company’s common stock for the 3 days prior to employment.

On July 5, 2019, the Company issued 104,166 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock, over a twelve-month period based on continual employment, based on the highest closing price of the Company’s common stock for the 5 days prior to employment.

On July 5, 2019, the Company issued 84,270 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$10,000 of stock, over a twelve-month period based on continual employment, based on the average closing price of the Company’s common stock for the 3 days prior to employment.

On July 5, 2019, the Company issued 37,764 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$10,000 of stock, over a twelve-month period based on continual employment, based on the average closing price of the Company’s common stock for the 3 days prior to employment.

On July 5, 2019, the Company issued 113,637 shares of common stock to an employee as part of their compensation. The Company agreed to issue \$20,000 of stock, over a twelve-month period based on continual employment, based on the average closing price of the Company’s common stock for the 5 days prior to employment.

The issuances described above related to the issuance of shares for services and are pursuant to agreements, were issued in reliance upon the exemption from securities registration afforded by the provisions of Section 4(a)(2) of the Securities Act.

On July 2, 2019, the Company issued 1,058,482 shares of restricted common stock to Eagle Equities, LLC (“Eagle”) in partial satisfaction of its obligations under, and the holder's election to convert a \$18,000 principal portion and \$968 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 8, 2019, the Company issued 1,230,450 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$20,000 principal portion and \$1,102 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 9, 2019, the Company issued 4,347,284 shares of restricted common stock to GS Capital Partners, LLC (“GS Capital”) in partial satisfaction of its obligations under, and the holder's election to convert a \$62,500 principal portion and \$2,014 of interest, of, the Company's convertible promissory note issued to GS Capital on December 4, 2018.

On July 10, 2019, the Company issued 1,230,969 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$20,000 principal portion and \$1,111 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 16, 2019, the Company issued 1,372,583 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$20,000 principal portion and \$1,138 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 18, 2019, the Company issued 1,431,731 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$20,000 principal portion and \$1,147 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 23, 2019, the Company issued 2,362,599 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$25,000 principal portion and \$1,461 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On July 24, 2019, the Company issued 4,223,875 shares of restricted common stock to GS Capital in partial satisfaction of its obligations under, and the holder's election to convert a \$38,000 principal portion and \$1,916 of interest, of, the Company's convertible promissory note issued to GS Capital on December 4, 2018.

On July 29, 2019, the Company issued 2,838,690 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$30,000 principal portion and \$1,793 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On August 5, 2019, the Company issued 4,342,803 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$40,100 principal portion and \$2,459 of interest, of, the Company's convertible promissory note issued to Eagle on November 2, 2018.

On August 9, 2019, the Company issued 3,013,333 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$20,000 principal portion and \$1,093 of interest, of, the Company's convertible promissory note issued to Eagle on December 4, 2018.

On August 9, 2019, the Company issued 7,829,104 shares of restricted common stock to GS Capital in partial satisfaction of its obligations under, and the holder's election to convert a \$52,000 principal portion and \$2,804 of interest, of, the Company's convertible promissory note issued to GS Capital on December 4, 2018.

On August 14, 2019, the Company issued 3,016,509 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$10,000 principal portion and \$1,116 of interest, of, the Company's convertible promissory note issued to Eagle on December 4, 2018.

On September 11, 2019, the Company issued 5,172,078 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$45,000 principal portion and \$2,790 of interest, of, the Company's convertible promissory note issued to Eagle on December 4, 2018.

On September 19, 2019, the Company issued 5,065,608 shares of restricted common stock to Eagle in partial satisfaction of its obligations under, and the holder's election to convert a \$40,000 principal portion and \$2,551 of interest, of, the Company's convertible promissory note issued to Eagle on December 4, 2018.

On September 24, 2019, the Company issued 3,762,376 shares of restricted common stock to GS Capital in partial satisfaction of its obligations under, and the holder's election to convert a \$25,000 principal portion and \$1,600 of interest, of, the Company's convertible promissory note issued to GS Capital on December 4, 2018.

On September 24, 2019, the Company issued 6,019,802 shares of restricted common stock to GS Capital in partial satisfaction of its obligations under, and the holder's election to convert a \$40,000 principal portion and \$2,560 of interest, of, the Company's back end convertible promissory note issued to GS Capital on December 4, 2018.

The issuances described above were made in reliance on the exemption from registration provided by Sections 3(a)(9) and 4(a)(1) of the Securities Act as the common stock was issued in exchange for debt securities of the Company held by each shareholder, there was no additional consideration for the exchange, there was no remuneration for the solicitation of the exchange, the shareholders were not affiliates, and they had held the underlying debt securities for the required time. The holders provided legal opinions pursuant to Section 4(a)(1) of Securities Act, or Rule 144 promulgated thereunder.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Item 6. Exhibits

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 3.1* | Articles of Incorporation |
| 3.2* | Bylaws of InnerScope Advertising Agency, Inc. |
| 3.3* | Amended and Restated Articles of Incorporation |
| 3.4* | Amended and Restated Articles of Incorporation dated August 25, 2017 |
| 3.5* | Certificate of Designation Series A Preferred Stock dated June 4, 2018 |
| 3.6* | Certificate of Designation Series B Preferred Stock dated June 4, 2018 |
| 3.7* | Amended and Restated Articles of Incorporation dated August 7, 2018 |
| 4.3* | Private Placement Offering Memorandum |
| 10.2* | InnerScope, Inc. Marketing Agreement between the Company and Moore Family Hearing Company, Inc. |
| 10.3* | Acquisition Agreement and Plan of Share Exchange dated June 20, 2012, between the Company and InnerScope Advertising Agency, LLC |
| 10.4* | Acquisition Agreement and Plan of Share Exchange dated November 1, 2013, between the Company and Intela-Hear, LLC |
| 10.5* | Promissory Note dated April 1, 2013, between the Company and Matthew Moore |
| 10.6* | Promissory Note dated June 25, 2013, between the Company and Matthew Moore |
| 10.7* | June 2012 Business Consulting Agreement |
| 10.8+* | GN ReSound Sales Agreement |
| 10.9+* | Store Expansion Consulting Agreement |
| 10.10+* | Consulting Agreement |
| 10.11#* | Employment Agreement with Matthew Moore, CEO |
| 10.12#* | Employment Agreement with Kimberly Moore, CFO |
| 10.13* | Financial Consulting Agreement between the Company and Venture Equity, LLC |
| 10.14* | Consulting and Representation Agreement between the Company and CorporateAds.com |
| 10.15* | Business Loan Agreement, dated May 5, 2017, between InnerScope Advertising Agency, Inc. and Moore Holdings, LLC and First Community Bank. |
| 10.16* | Commercial Security Agreement, dated May 5, 2017, between InnerScope Advertising Agency, Inc. and Moore Holdings, LLC and First Community Bank. |
| 10.17* | U.S. Small Business Administration Note. |
| 10.18* | Deed of Trust, dated May 5, 2017, among InnerScope Advertising Agency, Inc. and Moore Holdings, LLC. and First Community Bank and Placer Title Company. |
| 10.19* | Securities Purchase Agreement dated October 5, 2017 by and between InnerScope Hearing Technologies, Inc. and Power Up Lending Group, LTD. |
| 10.20* | Convertible Promissory Note dated October 5, 2017, by and between InnerScope Hearing Technologies, Inc. and Power Up Lending Group, LTD. |
| 10.21* | Securities Purchase Agreement dated November 10, 2017, by and between InnerScope Hearing Technologies, Inc. and Carebourn Capital, L.P. |
| 10.22* | Convertible Promissory Note dated November 10, 2017, by and between InnerScope Hearing Technologies, Inc. and Carebourn Capital, L.P. |
| 10.23* | Securities Purchase Agreement dated February 8, 2018 by and between InnerScope Hearing Technologies, Inc. and Power Up Lending Group, LTD. |
| 10.24* | Convertible Promissory Note dated February 8, 2018, by and between InnerScope Hearing Technologies, Inc. and Power Up Lending Group, LTD. |
| 10.25* | Securities Purchase Agreement dated April 8, 2018, by and between InnerScope Hearing Technologies, Inc. and Carebourn Capital, L.P. |

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|-----------|--|
| 10.26* | Convertible Promissory Note dated April 8, 2018, by and between InnerScope Hearing Technologies, Inc. and Carebourn Capital, L.P. |
| 10.27* | Securities Purchase Agreement dated May 11, 2018, by and between InnerScope Hearing Technologies, Inc. and One44 Capital LLC |
| 10.28* | Convertible Promissory Note dated May 11, 2018, by and between InnerScope Hearing Technologies, Inc. and One44 Capital LLC |
| 10.29* | Convertible Back- End Promissory Note dated May 11, 2018, by and between InnerScope Hearing Technologies, Inc. and One44 Capital LLC |
| 10.30* | Mutual Settlement Agreement and Release with Helix Hearing Care (California), Inc. |
| 10.31* | Manufacturing Design and Marketing Agreement. |
| 10.32* | Securities Purchase Agreement between InnerScope Hearing Technologies, Inc. and Eagle Equities, LLC, dated November 2, 2018. |
| 10.33* | Form of 8% Convertible Redeemable Notes issued by Company to Eagle Equities, LLC, dated November 2, 2018. |
| 10.34* | \$255,500 Principal Amount 8% Collateralized Secured Promissory Note issued by Eagle Equities, LLC. |
| 10.35* | First Amendment to Manufacturing Design and Marketing Agreement (the "Zounds Agreement") between InnerScope Hearing Technologies, Inc. and Zounds Hearing, Inc., a Delaware corporation ("Zounds"), dated November 2, 2018 |
| 10.36* | Joint Development Agreement between InnerScope Hearing Technologies, Inc. and Erchonia Corporation. |
| 10.37* | Exclusive Distributor Agreement between InnerScope Hearing Technologies, Inc. and Erchonia Corporation. |
| 31.1** | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer |
| 31.2** | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer |
| 32.1** | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer |
| 101.INS** | XBRL Instance |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB** | XBRL Taxonomy Extension Labels Linkbase |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase |

* Previously filed.

+ Confidential Treatment has been requested for certain portions thereof pursuant to Confidential Treatment Request under Rule 406 promulgated under the Securities Act. Such provisions and attachments have been filed with the Securities and Exchange Commission.

** Filed Herewith

Denotes management contract or compensatory plan or arrangement.

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.

Dated: November 14, 2019

INNERSCOPE HEARING TECHNOLOGIES, INC.

By: /s/ Matthew Moore _____
Matthew Moore
Chief Executive Officer (principal executive officer)

By: /s/ Kimberly Moore _____
Kimberly Moore
Chief Financial Officer (principal financial and accounting officer)

CERTIFICATIONS

I, Matthew Moore, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of InnerScope Hearing Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ Matthew Moore
Matthew Moore
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Kimberly Moore, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of InnerScope Hearing Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ Kimberly A. Moore
Kimberly A. Moore
Chief Financial Officer
(principal financial officer)

Section 1350 Certification

In connection with the Quarterly Report on Form 10-Q of InnerScope Hearing Technologies, Inc. (the "Company") for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Matthew Moore, Chief Executive Officer, and Kimberly Moore, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

/s/ Matthew Moore

Matthew Moore, Chief Executive Officer

Date: November 14, 2019

/s/ Kimberly Moore

Kimberly Moore, Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.