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

FORM 10-K

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

For the fiscal year ended: **December 31, 2019**

or

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

For the transition period from: _____________ to _____________

HEALTHIER CHOICES MANAGEMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware	**001-36469**	**84-1070932**
(State or Other Jurisdiction of Incorporation or Organization)	*(Commission File Number)*	*(I.R.S. Employer Identification No.)*

Address of Principal Executive Office: **3800 North 28th Way Hollywood, FL 33020**

Registrant's telephone number, including area code: **(305) 600-5004**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	HCMC	OTC Pink Marketplace

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). X Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	X	Smaller reporting company	X
		Emerging growth company	☐

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $6.7 million based on the June 30, 2019 closing price of $0.00 per share.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 77,661,544,971 shares outstanding as of May 13, 2020.

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PART I

Item 1. Business.

Healthier Choices Management Corp. (the "Company") is a holding company focused on providing consumers with healthier daily choices with respect to nutrition and other lifestyle alternatives. The Company currently operates nine retail vape stores in the Southeast region of the United States, through which it offers e-liquids, vaporizers and related products. The Company also operates Ada's Natural Market, a natural and organic grocery store, through its wholly owned subsidiary Healthy Choice Markets, Inc. and Paradise Health and Nutrition, stores that offer fresh produce, bulk foods, vitamins and supplements, packaged groceries, meat and seafood, deli, baked goods, dairy products, frozen foods, health & beauty products and natural household items through its wholly owned subsidiary Healthy Choice Markets 2, LLC. The Company also sells vitamins and supplements on the Amazon.com marketplace through its wholly owned subsidiary Healthy U Wholesale, Inc. The Company markets the Q-Cup™ technology under the vape segment; this patented technology is based on a small, quartz cup called the Q-Cup™, which a customer partially fills with either cannabis or CBD concentrate (approximately 50mg) purchased from a third party. The Q-Cup™ is then inserted into the Q-Cup™ Tank or Globe that heats the cup from the outside without coming in direct contact with the solid concentrate. This Q-Cup™ technology provides significantly more efficiency and an "on the go" solution for consumers who prefer to vape concentrates either medicinally or recreationally.

VAPORIZER AND E-LIQUID BUSINESS

Retail Stores

While evaluating retail store operations in 2019, management decided to close one of its vape stores in August 2019, due to the underperformance of the store. The closing of the store brings the total number of retail vape stores to nine stores.

Vaporizers

"Vaporizers" are battery-powered products that enable users to inhale nicotine vapor without smoke, tar, ash, or carbon monoxide. Regardless of their construction, they are comprised of three functional components:

- a mouthpiece, which is a small plastic cartridge that contains a liquid nicotine solution;
- the heating element that vaporizes the liquid nicotine so that it can be inhaled; and
- the electronic devices which include: a lithium-ion battery, an airflow sensor, a microchip controller and an LED, which illuminates to indicate use.

When a user draws air through the vaporizer, the air flow is detected by a sensor, which activates a heating element that vaporizes the solution stored in the mouthpiece/cartridge, the solution is then vaporized and it is this vapor that is inhaled by the user. The cartridge contains either a nicotine solution or a nicotine free solution, either of which may be flavored.

Vaporizers feature a tank or chamber, a heating element and a battery. The vaporizer user fills the tank with e-liquid or the chamber with dry herb or leaf. The vaporizer battery can be recharged and the tank and chamber can be refilled.

Our Brands

We sell a wide variety of our e-liquid under the Vape Store brand. Our in-house engineering and graphic design teams work to provide aesthetically pleasing, technologically advanced and affordable vaporizer and e-liquid flavor options. We are in the process of preparing to commercialize additional brands which we intend to market to new customers and demographics**.**

Our Improvements and Product Development on Intellectual Property

We have developed, trademarked and are preparing to commercialize additional products. We include product development expenses as part of our operating expenses. In October 2018, we announced the granting of three US patents related to our Q-Cup™ technology. This Q-Cup™ technology provides significantly more efficiency and an "on the go" solution for consumers who prefer to vape concentrates either medicinally or recreationally. In addition, we have a suite of patent applications pending in the United States. There is no assurance that we will be awarded patents for of any of these pending patent applications.

Vaporizer Biometric Fingerprint Lock Sensor Patent

We have a patent pending for a biometric fingerprint lock sensor that can be used in vaporizers. The biometric fingerprint lock sensor will allow the owner of the vaporizer to keep the device locked and turned off unless the authorized user unlocks the device via fingerprint scan, protecting the device from use by another individual. This technology may be used to protect against minors being able to turn on the device and will also deem the devices unusable in the event the device is lost or stolen. There is no assurance that we will be awarded a patent for this technology.

The Market for Vaporizers

We market our vaporizers as an alternative to traditional tobacco cigarettes and cigars. We offer our products in multiple nicotine strengths and flavors. Because vaporizers and electronic cigarettes offer a "smoking" experience without the burning of tobacco leaf, vaporizers and electronic cigarettes offer users the ability to satisfy their nicotine cravings without smoke, tar, ash or carbon monoxide. In many cases vaporizers may be used where tobacco-burning cigarettes may not. Vaporizers may be used in some instances where for regulatory or safety reasons tobacco burning cigarettes may not be used. However, certain states, cities, businesses, providers of transportation and public venues in the U.S. have banned the use of vaporizers, where traditional cigarettes may not be smoked, while others are considering banning the use of vaporizers. We cannot provide any assurances that the use of vaporizers will be permitted in places where traditional tobacco burning cigarette use is banned.

Advertising

Currently, we advertise our products primarily through point of sale materials and displays at retail locations. We also attempt to build brand awareness through social media marketing activities, price promotions, in-store and on premise promotions, public relations and radio advertising. We intend to continue to strategically manage our advertising activities in 2020 to gain editorial coverage for our brands. Some of our competitors promote their brands through print media and television commercials, and through celebrity endorsements, and have substantial resources to devote to such efforts. We believe that our and our competitors' efforts have helped increase our sales, our product acceptance and general industry awareness.

Distribution and Sales

The Company sells directly to consumers through the company owned retail vape stores. Our management believes that consumers are shifting towards vape stores for an enhanced experience. This enhanced experienced is derived from the greater variety of products at the stores, the knowledgeable staff and the social atmosphere. The Company anticipates a portion of future revenue will continue to come from its retail stores.

Business Strategy

We believe and are seeing in our current stores that there is a large consumer demand centered on vaporizer products and the "atmosphere" created by the vape stores. We believe that our reputation and our experience in the vaporizer industry, from a development, customer service and production perspective, give us an advantage in attracting customers.

Moreover, we believe that our history with our suppliers, including the volume of products we source, gives us an advantage over other market participants as it relates to favorable pricing, priority as to inventory supply and delivery and first access to new products, including first access to next generation products and technology.

Our goal is to achieve a position of sustainable leadership in the vaporizer industry. Our strategy consists of the following key elements:

- develop new product offerings with new technology and performance advancements;
- continue our product focus on vape related products;
- invest in and leverage our existing brand through marketing and advertising;
- expanding into new potential markets;
- align our product offerings and cost with market demand; and
- consider diversifying our line of business.

Competition

Competition in the vaporizer and e-liquid industry is intense. We compete with other sellers of vaporizes, most notably Altria Group, Inc., JT International, Imperial Tobacco, and Reynolds American, Inc., which are big tobacco companies that have vaporizer and electronic cigarette business segments. The nature of our competitors is varied as the market is highly fragmented and the barriers to entry into the business are low. Our direct competitors sell products that are substantially similar to ours excluding any products which we hold patents. As a general matter, we have access to market and sell the similar vaporizers as our competitors and we sell our products at substantially similar prices as our competitors; accordingly, the key competitive factors for our success is the quality of service we offer our customers, the scope and effectiveness of our marketing efforts, including media advertising campaigns and, increasingly, the ability to identify and develop new sources of customers.

As discussed above, we compete against "big tobacco", U.S. cigarette manufacturers of both conventional tobacco cigarettes and electronic cigarettes like Altria Group, Inc., JT International, Imperial Tobacco, and Reynolds American, Inc. We compete against "big tobacco" who offers not only conventional tobacco cigarettes and electronic cigarettes and vaporizers, but also smokeless tobacco products such as "snus" (a form of moist ground smokeless tobacco that is usually sold in sachet form that resembles small tea bags), chewing tobacco and snuff. "Big tobacco" has nearly limitless resources, global distribution networks in place and a customer base that is fiercely loyal to their brands. Furthermore, we believe that "big tobacco" is devoting more attention and resources to developing, acquiring technology patents, and offering electronic cigarettes, vaporizers and e-liquids as these markets grow. Because of their well-established sales and distribution channels, marketing expertise and significant resources, "big tobacco" is better positioned than small competitors like us to capture a larger share of the electronic cigarette market. We also compete against numerous other smaller manufacturers or importers of cigarettes. There can be no assurance that we will be able to compete successfully against any of our competitors, some of whom have far greater resources, capital, experience, market penetration, sales and distribution channels than us. If our major competitors were, for example, to significantly increase the level of price discounts offered to consumers, we could respond by offering price discounts, which could have a materially adverse effect on our business, results of operations and financial condition.

Manufacturing

We have no manufacturing capabilities and do not intend to develop any manufacturing capabilities. Third party manufacturers make our products to meet our design specifications. We depend on third party manufacturers for our vaporizer e-liquid and accessories. Our customers associate certain characteristics of our products including the weight, feel, draw, unique flavor, packaging and other attributes of our products to the brands we market, distribute and sell. Any interruption in supply and or consistency of our products may harm our relationships and reputation with customers, and have a material adverse effect on our business, results of operations and financial condition. In order to minimize the risk of supply interruption, we currently utilize several third-party manufacturers to manufacture our products to our specifications.

We currently utilize several manufacturers both domestically and internationally. We contract with our manufacturers on a purchase order basis. We do not have any output or requirements contracts with any of our manufacturers. Our manufacturers provide us with finished products, which we hold in inventory for distribution, sale and use.

Source and Availability of Product

We believe that an adequate supply of product will be available to us as needed and from multiple sources and suppliers.

Patent Litigation

Third party patent lawsuits alleging our infringement of patents, trade secrets or other intellectual property rights have and could force us to do one or more of the following:

- stop selling products or using technology that contains the allegedly infringing intellectual property;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we may be found to be infringing;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available to us on reasonable terms or at all.

Future third party lawsuits alleging our infringement of patents, trade secrets or other intellectual property rights could have a material adverse effect on our business, results of operations and financial condition.

We are required to obtain licenses to patents or proprietary rights of others and may be required to obtain more in the future and as the product continues to evolve. We cannot assure you that any future licenses required under any such patents or proprietary rights would be made available on terms acceptable to us or at all. If we do not obtain such licenses, we could encounter delays in product market introductions while we attempt to design around such patents, or could find that the development, manufacture, or sale of products requiring such licenses could be foreclosed. Litigation may be necessary to defend against claims of infringement asserted against us by others, or assert claims of infringement to enforce patents issued to us or exclusively licensed to us, to protect trade secrets or know-how possessed by us, or to determine the scope and validity of the proprietary rights of others. In addition, we may become involved in oppositions in foreign jurisdictions, reexamination declared by the United States Patent and Trademark Office, or interference proceedings declared by the United States Patent and Trademark Office to determine the priority of inventions with respect to our patent applications or those of our licensors. Litigation, opposition, reexamination or interference proceedings could result in substantial costs to and diversion of effort by us, and may have a material adverse impact on us. In addition, we cannot assure you that our efforts to maintain or defend our patents will be successful.

Regulations

Since a 2010 U.S. Court of Appeals decision, the Food and Drug Administration ("FDA") is permitted to regulate electronic cigarettes as "tobacco products" under the Family Smoking Prevention and the Tobacco Control Act. Under this decision, the FDA is not permitted to regulate electronic cigarettes as "drugs" or "devices" or a "combination product" under the Federal Food, Drug and Cosmetic Act unless they are marketed for therapeutic purposes. This is contrary to anti-smoking devices like nicotine patches, which undergo more extensive FDA regulation. Because the Company does not market its electronic cigarettes for therapeutic purposes, the Company's electronic cigarettes are subject to being classified as "tobacco products" under the Tobacco Control Act. The Tobacco Control Act grants the FDA broad authority over the manufacture, sale, marketing and packaging of tobacco products, although the FDA is prohibited from issuing regulations banning all cigarettes or all smokeless tobacco products, or requiring the reduction of nicotine yields of a tobacco product to zero.

On April 24, 2014, the FDA released proposed rules that would extend its regulatory authority to electronic cigarettes and certain other tobacco products under the Tobacco Control Act. The proposed rules would require that electronic cigarette manufacturers (i) register with the FDA and report electronic cigarette product and ingredient listings; (ii) market new electronic cigarette products only after FDA review; (iii) only make direct and implied claims of reduced risk if the FDA confirms that scientific evidence supports the claim and that marketing the electronic cigarette product will benefit public health as a whole; (iv) not distribute free samples; (v) implement minimum age and identification restrictions to prevent sales to individuals under age 18; (vi) include a health warning; and (vii) not sell electronic cigarettes in vending machines, unless in a facility that never admits youth. It is not known how long finalizing and implementing this regulatory process to may take. Accordingly, the Company cannot predict the content of any final rules from the proposed rules or the impact they may have.

In this regard, total compliance and related costs are not possible to predict and depend substantially on the future requirements imposed by the FDA under the Tobacco Control Act. Costs, however, could be substantial and could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, failure to comply with the Tobacco Control Act and with FDA regulatory requirements could result in significant financial penalties and could have a material adverse effect on the Company's business, financial condition and results of operations and ability to market and sell the Company's products. At present, it is difficult to predict whether the Tobacco Control Act will impact the Company to a greater degree than competitors in the industry, thus affecting the Company's competitive position.

State and local governments currently legislate and regulate tobacco products, including what is considered a tobacco product, how tobacco taxes are calculated and collected, to whom and by whom tobacco products can be sold and where tobacco products may or may not be smoked. State and local regulation of the e-cigarette market and the usage of e-cigarettes is beginning to accelerate.

As local regulations expand, vaporizers and electronic cigarettes may lose their appeal as an alternative to cigarettes, which may have the effect of reducing the demand for the Company's products and as a result have a material adverse effect on the Company's business, results of operations and financial condition.

At present, neither the Prevent All Cigarette Trafficking Act (which prohibits the use of the U.S. Postal Service to mail most tobacco products, which would require individuals and businesses that make interstate sales of cigarettes or smokeless tobacco to comply with state tax laws) nor the Federal Cigarette Labeling and Advertising Act (which governs how cigarettes can be advertised and marketed) apply to electronic cigarettes. The application of either or both of these federal laws to vaporizers and electronic cigarettes would have a material adverse effect on the Company's business, results of operations and financial condition.

On July 1, 2015, the FDA published a document entitled "Advanced notice of proposed rulemaking" or the Advance. Through the Advance, the FDA solicited public comments on whether it should issue rules with respect to nicotine exposure warning and child-resistant packaging for e-liquids containing nicotine. Following public comment, the FDA may issue proposed rules in furtherance of the purposes outlined in the Advance and ultimately pass the rules as proposed or in modified form. We cannot predict whether rules will be passed or if they will have a material adverse effect on our future results of operations and financial conditions.

The Company expects that the tobacco industry will experience significant regulatory developments over the next few years, driven principally by the World Health Organization's FCTC. The FCTC is the first international public health treaty on tobacco, and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. Regulatory initiatives that have been proposed, introduced or enacted include:

- the levying of substantial and increasing tax and duty charges;
- restrictions or bans on advertising, marketing and sponsorship;
- the display of larger health warnings, graphic health warnings and other labelling requirements;
- restrictions on packaging design, including the use of colors and generic packaging;
- restrictions or bans on the display of tobacco product packaging at the point of sale, and restrictions or bans on cigarette vending machines;
- requirements regarding testing, disclosure and performance standards for tar, nicotine, carbon monoxide and other smoke constituents' levels;
- requirements regarding testing, disclosure and use of tobacco product ingredients;
- increased restrictions on smoking in public and work places and, in some instances, in private places and outdoors;
- elimination of duty free allowances for travelers; and
- encouraging litigation against tobacco companies.

If Vaporizers, electronic cigarettes, or e-liquids, are subject to one or more significant regulatory initiates enacted under the FCTC, the Company's business, results of operations and financial condition could be materially and adversely affected.

NATURAL AND ORGANIC GROCERIES and DIETARY SUPPLEMENTS BUSINESS

Healthy Choice and Healthy Choice Markets 2 are specialty retailer of natural and organic groceries and dietary supplements. We focus on providing high-quality products at affordable prices, exceptional customer service, nutrition education and community outreach. We strive to generate long-term relationships with our customers based on quality and service by:

- selling only natural and organic groceries;
- offering affordable prices and a shopper-friendly retail environment; and
- Providing dine-in options at our Natural Organic Juice Bar and Green Leaf Café.

Our History and Founding Principles

We are committed to maintaining the following founding principles, which have helped foster our growth:

- Quality. Every product on our shelves must go through a rigorous screening and approval process. Our mission includes providing the highest quality groceries and supplements, Natural Grocers branded products, European and United States Department of Agriculture (USDA) certified organic and fresh produce at the best prices in the industry.
- Community. The Ada's and Paradise brands have been serving Florida communities for 40 years.
- Employees. Our employees make our companies great. We work hard to ensure that our employees are able to live a healthy, balanced lifestyle. We support them with free nutrition education programs, good pay and excellent benefits.

Our Market

We operate within the natural products retail industry, which is a subset of the United States grocery industry and the dietary supplement business. This industry includes conventional supermarkets, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, independent health food stores, dietary supplement retailers, drug stores, farmers' markets, food co-ops, mail order and online retailers and multi-level marketers. Industry-wide sales of natural and organic foods and dietary supplements have experienced meaningful growth over the past several years, and we believe that growth will continue for the foreseeable future.

We believe the growth in sales of natural and organic foods and dietary supplements continues to be driven by numerous factors, including:

- greater consumer focus on high-quality nutritional products;
- an increased awareness of the importance of good nutrition to long-term wellness;
- aging communities that are seeking healthy lifestyle alternatives;
- heightened consumer awareness about the importance of food quality and a desire to avoid pesticide residues, growth hormones, artificial ingredients and genetically engineered ingredients in foods;
- growing consumer concerns over the use of harmful chemical additives in body care and household cleaning supplies;
- well-established natural and organic brands, which generate additional industry awareness and credibility with consumers; and
- the growth in the number of consumers with special dietary requirements as a result of allergies, chemical sensitivities, auto-immune disorders and other conditions.

Our Competitive Strengths

We are well-positioned to capitalize on favorable natural and organic grocery and dietary supplement industry dynamics as a result of the following competitive strengths:

Strict focus on high-quality natural and organic grocery products. We offer high-quality products and brands, including an extensive selection of widely-recognized natural and organic food, dietary supplements, body care products, pet care products and books. We offer our customers approximately 10,000 Stock Keeping Units (SKUs) of natural and organic products. We believe our broad product offering enables our customers to shop our stores for substantially all of their grocery and dietary supplement purchases. In our grocery departments, we primarily sell USDA certified organic produce and do not approve for sale grocery products that are known to contain artificial colors, flavors, preservatives or sweeteners or partially hydrogenated or hydrogenated oils. In addition, we only sell pasture-raised, humanely-raised dairy products. Consistent with this strategy, our product selection does not include items that do not meet our strict quality guidelines. Our store managers enhance our robust product offering by customizing their stores' selections to address the preferences of local customers.

Engaging customer service experience based on education and empowerment. We strive to offer consistently exceptional customer service in a shopper-friendly environment, which we believe creates a differentiated shopping experience, enhances customer loyalty and generates repeat visits from our clientele. A key aspect of our customer service model is to provide free nutrition education to our customers. We believe this focus provides an engaging retail experience while also empowering our customers to make informed decisions about their health. We offer our science-based nutrition education through our trained employees, our newsletter and sales flyer, community out-reach programs, one-on-one nutrition health coaching, nutrition classes and cooking demonstrations.

Our Growth Strategies

We expect to pursue several strategies to continue our profitable growth, including:

Expand our store base. We intend to expand our store base through the acquisition of new stores.

Increase sales from existing customers. In order to increase our average ticket and the number of customer transactions, we plan to continue offering an engaging customer experience by providing science-based nutrition education and a differentiated merchandising strategy that delivers affordable, high-quality natural and organic grocery products and dietary supplements. We also plan to continue to utilize targeted marketing efforts to reach our existing customers, which we anticipate will drive customer transactions and convert occasional, single-category customers into core, multi-category customers.

Grow our customer base. We plan to implement several measures aimed at building our brand awareness and growing our customer base, including: (i) redesigning our website (*www.adasmarket.com*) to enhance functionality, create a more engaging user experience and increase its reach and effectiveness; (ii) introducing customer appreciation programs at all our stores; and (iii) developing new collateral marketing materials. We believe offering nutrition education has historically been one of our most effective marketing strategies for reaching new customers and increasing the demand for natural and organic groceries and dietary supplements in our markets.

Improve operating margins. We expect to continue to improve our operating margins as we benefit from investments we have made or are making in fixed overhead and information technology. As we add additional stores, we expect to achieve greater economies of scale through sourcing and distribution. To achieve additional operating margin expansion, we intend to further optimize performance, maintain appropriate store labor levels and effectively manage product selection and pricing.

Our Products

Product Selection Guidelines. We have a set of strict quality guidelines covering all products we sell. For example:

- we do not approve for sale food known to contain artificial colors, flavors, preservatives or sweeteners or partially hydrogenated or hydrogenated oils or phthalates or parabens, regardless of the proportion of its natural or organic ingredients;

- we sell USDA certified organic produce; and

- we sell meats naturally raised without hormones, antibiotics or treatments and that were not fed animal by-products.

Our product review team analyzes all new products and approves them for sale based on ingredients, price and uniqueness within the current product set. We actively research new products in the marketplace through our product vendors, private label manufacturers, scientific findings, customer requests and general trends in popular media. Our stores are able to fully merchandise all departments by providing an extensive assortment of natural and organic products. We do not believe we need to sell conventional products to fill our selection, increase our margins or attract more customers.

What We Sell. We operate both a full-service natural and organic grocery stores and dietary supplement stores within our retail locations. The following is a breakdown of our product mix:

- *Grocery.* We offer a broad selection of natural and organic grocery products with an emphasis on minimally processed and single ingredient products that are not known to contain artificial colors, flavors, preservatives or sweeteners or partially hydrogenated or hydrogenated oils. Additionally, we carry a wide variety of products associated with special diets such as gluten free, vegetarian and non-dairy.

- *Produce.* We sell USDA-certified organic produce and source from local, organic producers whenever feasible. Our selection varies based on seasonal availability, and we offer a variety of organic produce offerings that are not typically found at conventional food retailers.

- *Bulk Food and Private Label Products.* We sell a wide selection of private label repackaged bulk and other products, including nuts, water, pasta, canned seafood, dried fruits, grains, granolas, honey, eggs, herbs, spices and teas.

- *Dry, Frozen and Canned Groceries.* We offer a wide variety of natural and organic dry, frozen and canned groceries, including cereals, soups, baby foods, frozen entrees and snack items. We offer a broad selection of natural chocolate bars, and energy, protein and food bars.

- *Meats and Seafood.* We offer naturally-raised or organic meat products. The meat products we offer come from animals that have never been treated with antibiotics or hormones or fed animal by-products. Additionally, we only buy from companies we believe employ humane animal-raising practices. Our seafood items are generally frozen at the time of processing and sold from our freezer section, thereby ensuring freshness and reducing food spoilage and safety issues.

- *Dairy Products and Dairy Substitutes.* We offer a broad selection of natural and organic dairy products such as milk, eggs, cheeses, yogurts and beverages, as well as non-dairy substitutes made from almonds, coconuts, rice and soy.

- *Prepared Foods.* Our stores have a convenient selection of refrigerated prepared fresh food items, including salads, sandwiches, salsa, humus and wraps. The size of this offering varies by location.

- *Bread and Baked Goods.* We receive regular deliveries of a wide selection of bakery products for our bakery section, which includes an extensive selection of gluten-free items.

- *Beverages.* We offer a wide variety of non-alcoholic and alcoholic beverages containing natural and organic ingredients.

- *Dietary Supplements.* We offer a wide selection of vitamins, supplements and natural remedies. Our staff is well educated and trained on multiple aspects of natural medicine.

- *Body Care.* We offer a full range of cosmetics, skin care, hair care, fragrance and personal care products containing natural and organic ingredients. Our body care offerings range from bargain-priced basics to high-end formulations.

- *Household and General Merchandise.* Our offerings include sustainable, hypo-allergenic and fragrance-free household products, including cleaning supplies, paper products, dish and laundry soap and other common household products, including diapers.

Quality Assurance. We endeavor to ensure the quality of the products we sell. We work with reputable suppliers we believe are compliant with established regulatory and industry guidelines. Our purchasing department requires a complete supplier and product profile as part of the approval process. Our dietary supplement suppliers must follow Food and Drug Administration (FDA) current good manufacturing practices supported by quality assurance testing for both the base ingredients and the finished product. We expect our suppliers to comply with industry best practices for food safety.

Many of our suppliers are inspected and certified under the USDA National Organic Program, voluntary industry associations, and other third-party auditing programs with regards to additional ingredients, manufacturing and handling standards. We operate all our stores in compliance with the National Organic Program standards, which restricts the use of certain substances for cleaning and pest control and requires rigorous recordkeeping, among other requirements.

Our Pricing Strategy

We believe our pricing strategy allows our customers to shop our stores on a regular basis for their groceries and dietary supplements.

The key elements of our pricing strategy include:

- heavily advertised deals supported by manufacturer participation;

- in-store specials generally lasting for 30 days and not advertised outside the store;

- managers' specials, such as clearance, overstock, short-dated or promotional incentives; and

- specials on seasonally harvested produce.

As we expand our store base, we believe there are opportunities for increased leverage in fixed costs, such as administrative expenses, as well as increased economies of scale in sourcing products. We strive to keep our product, operating and general and administrative costs low, which allows us to continue to offer attractive pricing for our customers.

Store Management and Staffing. Our store staffing includes a manager and assistant manager, with department managers in each of the dietary supplement, grocery, dairy and frozen, produce, body care and receiving departments, as well as several non-management employees. Our regional manager is responsible for monthly store profit and loss, including labor, merchandising and inventory costs.

To ensure a high level of service, all employees receive training and guidance on customer service skills, product attributes and nutrition education. Employees are carefully trained and evaluated based on a requirement that they present nutrition information in an appropriate and legally compliant educational context while interacting with customers. Additionally, store employees are cross-trained in various functions, including cashier duties, stocking and receiving product.

Inventory. We use a robust merchandise management and perpetual inventory system that values goods at average cost. We manage shelf stock based on weeks-on-hand relative to sales, resupply time and minimum economic order quantity.

Sourcing and Vendors. We source from approximately 460 suppliers, and offer over 4,000 brands. These suppliers range from small independent businesses to multi-national conglomerates. As of December 31, 2019, we purchased approximately 60% of the goods we sell from our top 20 suppliers. For the fiscal year ended December 31, 2019, approximately 20% of our total purchases were from one vendor. We maintain good relations with all our suppliers and believe we have adequate alternative supply methods, including self-distribution.

We have longstanding relationships with our suppliers, and we require disclosure from them regarding quality, freshness, potency and safety data information. Our bulk food private label products are packaged by us in pre-packed sealed bags to help prevent contamination while in transit and in our stores. Unlike most of our competitors, most of our private label nuts, trail mix and flours are refrigerated in our warehouse and stores to maintain freshness.

Our Employees

Commitment to our employees is one of our five founding principles. Employees are eligible for health, long-term disability, vision and dental insurance coverage, as well as Company paid short-term disability and life insurance benefits, after they meet eligibility requirements. Additionally, our employees are offered a 401(k) retirement savings plan with discretionary contribution matching opportunities. This further offers our employees the opportunity to become more familiar with our products, which we believe improves the customer service our employees are able to provide. We believe these and other factors result in higher retention rates and encourage our employees to appreciate our culture, which helps them better promote our brand.

Our Customers

The growth in the natural and organic grocery and dietary supplement industries and growing consumer interest in health and nutrition have led to an increase in our core customer base. We believe the demands for affordable, nutritious food and dietary supplements are shared attributes of our core customers, regardless of their socio-economic status. Additionally, we believe our core customers prefer a retail store environment that offers carefully selected natural and organic products and dietary supplements. Our customers tend to be interested in health and nutrition, and expect our store employees to be highly knowledgeable about these topics and related products.

Competition

The grocery and dietary supplement retail business is a large, fragmented and highly competitive industry, with few barriers to entry. Our competition varies by market and includes conventional supermarkets such as Publix and Winn-Dixie, mass or discount retailers such as Wal-Mart and Target, natural and gourmet markets such as Whole Foods and The Fresh Market, specialty food retailers such as Trader Joe’s, independent health food stores, dietary supplement retailers, drug stores, farmers’ markets, food co-ops, mail order and online retailers and multi-level marketers. These businesses compete with us for customers on the basis of price, selection, quality, customer service, shopping experience or any combination of these or other factors. They also compete with us for products and locations. In addition, some of our competitors are expanding to offer a greater range of natural and organic foods. We believe our commitment to carrying only carefully vetted, affordably priced and high-quality natural and organic products and dietary supplements, as well as our focus on providing nutritional education, differentiate us in the industry and provide a competitive advantage.

Seasonality

Our business is active throughout the calendar year and does not experience significant fluctuation caused by seasonal changes in consumer purchasing.

Insurance and Risk Management

We use a combination of insurance and self-insurance to cover workers’ compensation, general liability, product liability, director and officers’ liability, employment practices liability, associate healthcare benefits and other casualty and property risks. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers and changes in discount rates could all affect ultimate settlements of claims. We evaluate our insurance requirements and providers on an ongoing basis.

Information Technology Systems

We have made significant investments in overhead and information technology infrastructure, including purchasing, receiving, inventory, point of sale, warehousing, distribution, accounting, reporting and financial systems.

Segment Information

We have two reporting segments, natural and organic retail stores ("Grocery”) and vapor products ("Vapor”), through which we conduct all of our business.

Going Concern and Liquidity

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate the continuation of the Company as a going concern for the next twelve months from the issuance of this Form 10-K and realization of assets and satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of any uncertainties related to our going concern assessment. The carrying amounts of assets and liabilities presented in the consolidated financial statements do not necessarily purport to represent realizable or settlement values.

The Company currently and historically has reported net losses and cash outflows from operations. As of December 31, 2019, cash and cash equivalents totaled approximately $3.5 million. While we anticipate that our current cash, cash equivalents, and cash to be generated from operations will be sufficient to meet our projected operating plans for the foreseeable future through a year and a day from the issuance of these consolidated financial statements, should we require additional funds (either through equity or debt financings, collaborative agreements or from other sources) we have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all.

On December 31, 2018, we entered into a Term Loan Credit Agreement (the "Credit Agreement") with Professional Bank (the "Bank") pursuant to which the Company issued a Term Note (the "Term Note") in the principal amount of $1.4 million in favor of the Bank. The Term Note bears interest at a rate equal to 1.5% in excess of that rate shown in the Wall Street Journal as the prime rate, adjusted annually. The proceeds of the Term Note were used for acquisitions and for general working capital requirements.

Item 1A. Risk Factors.

Not applicable to smaller reporting companies.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company operates its business from numerous facilities in Florida, Georgia and Tennessee. These leased facilities include our headquarters location, warehouse and retail stores.

Grocery Segment. As of December 31, 2019, our Grocery segment had 4 retail stores in Florida which aggregate approximately 28,000 square feet, all of which are leased by our grocery segment.

Vapor Segment. As of December 31, 2019, our Vapor segment operated 7 retail stores in Florida, 1 retail store in Georgia and 1 retail store in Tennessee, aggregating approximately 11,000 square feet.

Our headquarters and warehouse is located in Hollywood, Florida which aggregates approximately 10,000 square feet.

Item 3. Legal Proceedings.

No response is required under Item 103 of Regulation S-K.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is currently listed on the OTC Pink marketplace under the symbol "HCMC".

As of May 13, 2020, there were approximately 1,400 stockholders of record for our common stock. A substantially greater number of stockholders may be "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

As of May 13, 2020, the last reported sale price of our common stock on the OTC Pink Marketplace was $0.00 per share.

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on any of our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends in the foreseeable future. Future determination as to the declaration and payment of dividends, if any, will be at the discretion of our Board and will depend on then existing conditions, including our operating results, financial conditions, contractual restrictions, capital requirements, business prospects and other factors our Board may deem relevant.

Repurchases of Outstanding Series A Warrants

Company repurchases of Series A Warrants during 2017 are set forth in the table below. There were no such repurchases by the Company during 2019.

Period	Total Number of Series A Warrants Purchased	Average Price Paid per Series A Warrant
January 1, 2017 – September 30, 2017	10,601,412	0.23

On August 16, 2018, Healthier Choices Management Corp. (the "Company") entered into agreements (each a "Warrant Exchange Agreement") with certain holders of its Series A Warrants to exchange the Company's Series B Convertible Preferred Stock (the "Series B Stock") for Series A Warrants. A total of 20,722 shares of Series B Stock were exchanged for 46,048,318 Series A Warrants (including those warrants issuable pursuant to a Unit Purchase Option). The Series A Warrants acquired by the Company represented approximately 92% of the outstanding Series A Warrants and would have been convertible into 460,483,180,000 shares of Company common stock ("Common Stock") if exercised as the date of the Warrant Exchange Agreements. Each share of Series B Stock has a stated value equal to $1,000 and is convertible into Common Stock on a fixed basis at a conversion price of $0.0001 per share.

As part of the transaction, the Company also acquired and cancelled a Unit Purchase Option that it had issued on July 23, 2015. The Unit Purchase Option was exercisable into 3,761,660 Series A Warrants.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included elsewhere in this report. "Management's Discussion and Analysis of Financial Condition" and "Results of Operations" contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Cautionary Note Regarding Forward Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained in this report, including statements regarding our future financial position, liquidity, business strategy, plans and objectives of management for future operations, are forward-looking statements.

Forward-looking statements contained in this report include:

- Our liquidity;
- Increase demand for vaporizers and related products;
- Opportunities for our business; and
- Growth of our business.

The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "is likely," "expect," and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements are contained in the Risk Factors contained herein. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise. For more information regarding some of the ongoing risks and uncertainties of our business, see the Risk Factors below.

Factors Affecting Our Performance

We believe the following factors affect our performance:

Retail: We believe the operating performance of our retail stores will affect our revenue and financial performance. The Company has a total of nine retail vape stores and four natural and organic groceries and dietary supplement stores which are located in Florida, Georgia and Tennessee. The Company has ceased plans to increase the number of retail vape stores due to adverse industry trends and increasing federal and state regulations that, if implemented, may negatively impact future retail revenues.

Increased Competition: The launch by national competitors in both of our business reporting segments have made it more difficult to compete on prices and to secure business. We expect increased product supply and downward pressure on prices to continue and impact our operating results in the future. We also expect the continued expansion of national grocery chains, which leads to greater competition, to impact our operating results in the future.

Results of Operations

The following table sets forth our Consolidated Statements of Operations for the years ended December 31, 2019 and 2018 that is used in the following discussions of our results of operations:

	For the Year Ended December 31,		2019 to 2018
	2019	2018	**Change $**
SALES:			
Vapor sales, net	**$ 4,134,701**	$ 6,281,198	**$ (2,146,497)**
Grocery sales, net	**10,979,305**	8,365,842	**2,613,463**
Total Sales	**15,114,006**	14,647,040	**466,966**
Cost of sales vapor	**1,690,734**	2,651,110	**(960,376)**
Cost of sales grocery	**6,939,028**	4,831,043	**2,107,985**
GROSS PROFIT	**6,484,244**	7,164,887	**(680,643)**
EXPENSES:			
Advertising	**166,430**	193,955	**(27,525)**
Impairment of goodwill	**481,314**	-	**481,314**
Selling, general and administrative	**10,250,784**	9,952,858	**297,926**
Total operating expenses	**10,898,528**	10,146,813	**751,715**
Operating loss	**(4,414,284)**	(2,981,926)	**(1,432,358)**
OTHER INCOME (EXPENSES):			
Loss on extinguishment of warrants in exchange for preferred stock/revaluation	**-**	(10,696,774)	**10,696,774**
Gain on revaluation of warrants	**1,719,816**	-	**1,719,816**
Other income	**24,800**	475,430	**(450,630)**
Interest income	**108,374**	108,067	**307**
Interest expense	**(171,225)**	(8,915)	**(162,310)**
Loss on investment	**(66,857)**	(59,143)	**(7,714)**
Total other income	**1,614,908**	(10,181,335)	**11,796,243**
NET INCOME (LOSS)	**$ (2,799,376)**	$ (13,163,261)	**$ 10,363,885**

Net vapor sales decreased $2.1 million to $4.1 million for the twelve months ended December 31, 2019 as compared to $6.3 million for the same period in 2018. The decrease in sales is primarily due to the closure of several Vape stores and the termination of the Q-Cup agreement with MJ Holdings Inc. Net grocery sales increased $2.6 million to $11.0 million for the twelve months ended December 31, 2019 as compared to $8.4 million for the same period in 2018. The increase was primarily due to the acquisition of Paradise Health and Nutrition.

Vapor cost of goods sold for the twelve months ended December 31, 2019 and 2018 were $1.7 million and $2.7 million, respectively an decrease of $1.0 million. The decrease in cost of goods sold is primarily due to the closure of several Vape stores and the termination of the Q-Cup agreement with MJ Holdings Inc. Grocery store cost of goods sold for the twelve months ended December 31, 2019 and 2018 were $6.9 million and $4.8 million, respectively, an increase of $2.1 million. The increase was primarily due to the acquisition of Paradise Health and Nutrition.

Total operating expenses increased $0.8 million to $10.9 million for the twelve months ended December 31, 2019. The increase was primarily attributable to a goodwill impairment of $0.5 million and an increase in occupancy costs of $0.3 million from 2018.

The Company determined that the carrying value of intangible assets in connection with the acquisition of Healthy Choice Markets, LLC exceeded their potential cash flow from disposition. The Company concluded that goodwill was impaired and recorded an impairment charges of $0.5 million for the twelve months ended December 31, 2019. The Company did not have an impairment charge for 2018.

Net other income of $1.6 million for the twelve months ended December 31, 2019 includes $1.7 million of a non-cash charge related to the revaluation of the outstanding Series A warrants to a fair market value of $0.

Liquidity and Capital Resources

	For the year ended December 31,	
	2019	2018
Net cash provided by (used in):		
Operating activites	**$ (3,535,241)**	$ (143,464)
Investing activies	**126,754**	(4,023,600)
Financing activities	**(127,351)**	3,345,126
	$ (3,535,838)	$ (821,938)

Our net cash used in operating activities of $3.5 million for the twelve months ended December 31, 2019 resulted from our net loss of $2.8 million, offset by a net cash usage of $0.9 million from changes in operating assets and liabilities and a non-cash adjustments of $0.1 million. Our net cash used in continuing operating activities of $0.1 million for the twelve months ended December 31, 2018 resulted from our net loss from continuing operations of $13.2 million, offset by a net cash usage of $0.2 million from changes in operating assets and liabilities and a non-cash adjustments of $12.8 million. We did not utilize any cash on discontinued operations for the twelve months ended December 31, 2019 and 2018.

The net cash provided by investing activities of $0.1 million for the twelve months ended December 31, 2019 resulted from the collection of a note receivable. The net cash used in investing activities of $4.0 million for the twelve months ended December 31, 2018 resulted from the issuance and collection of a note receivable, the acquisition of new business and purchases of a patent and property and equipment.

The net cash used in financing activities of $0.1 million for the twelve months ended December 31, 2019 is due to payments on the loan payable of $0.3 million, partially offset by proceeds from our line of credit of $0.1 million. The net cash provided by financing activities of $3.3 million for the twelve months ended December 31, 2018 is due to proceeds from a loan payable and our line of credit of $3.3 million and proceeds from exercise of stock options of $0.1 million.

At December 31, 2019 and December 31, 2018, we did not have any material financial guarantees or other contractual commitments with trade vendors that are reasonably likely to have an adverse effect on liquidity.

Our cash balances are kept liquid to support our growing acquisition and infrastructure needs for operational expansion. The majority of our cash and cash equivalents are concentrated in one large financial institution, which is in excess of Federal Deposit Insurance Corporation (FDIC) coverage. The following table presents the Company's cash position as of December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
Cash	**$ 3,525,415**	$ 7,061,253
Total assets	**$ 14,006,669**	$ 15,172,664
Percentage of total assets	**25.2%**	46.5%

The Company reported net loss of approximately $2.8 million for the year ended December 31, 2019. The Company also had positive working capital of $2.0 million. The Company expects to continue incurring losses for the foreseeable future and may need to raise additional capital to satisfy business obligations, and to continue as a going concern.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements other than operating leases for retail locations, equipment, and vehicles.

Seasonality

We do not consider our business to be seasonal.

Non-GAAP Financial Measures

The following discussion and analysis contains a non-GAAP financial measure. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles (GAAP). Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternative to, net income, operating income, and cash flow from operating activities, liquidity or any other financial measures. Non-GAAP financial measures may not be indicative of the historical operating results of the Company nor are they intended to be predictive of potential future financial results. Investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP.

Management believes stockholders benefit from referring to the Adjusted EBITDA in planning, forecasting, and analyzing future periods. Management uses this non-GAAP financial measure in evaluating its financial and operational decision making and as a means of evaluating period to period comparison.

We define Adjusted EBITDA as net loss from operations adjusted for non-cash charges for depreciation and amortization and stock compensation. Management believes Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period to period after removing the impact of significant non-cash charges that effect comparability between reporting periods. Our management recognizes that Adjusted EBITDA has inherent limitations because of the excluded items.

We have included a reconciliation of our non-GAAP financial measure to loss from operations as calculated in accordance with GAAP. We believe that providing the non-GAAP financial measure, together with the reconciliation to GAAP, helps investors make comparisons between the Company and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to specific definitions being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable rules of the Securities and Exchange Commission.

		2019		2018
Reconciliation of Adjusted EBITDA to net loss allocable to common stockholders:				
Operating loss	**$**	**(4,414,284)**	$	(2,981,926)
Impairment of goodwill		**481,314**		-
Depreciation and amortization		**594,940**		375,690
Stock-based compensation expense		**374,241**		1,712,412
Adjusted EBITDA	**$**	**(2,963,789)**	$	(893,824)

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

See pages F-1 through F-23.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

We are required to report under Section 404(a) of Sarbanes-Oxley regarding the effectiveness of our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures. Our management, including our Principal Executive Officer and Principal Financial Officer, did not carry out an evaluation on internal controls during the year ended December 31, 2019 in regard to the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act. As an evaluation was not carried out, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Our management, including our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2019.

In planning and performing its audit of our financial statements for the year ended December 31, 2019 in accordance with standards of the Public Company Accounting Oversight Board, our independent registered public accounting firm noted material weaknesses in internal control over financial reporting. A list of our material weaknesses are as follows:

- Failure to have properly documented and designed disclosure controls and procedures and testing of the operating effectiveness of our internal control over financial reporting

- Weakness around our purchase orders and inventory write-off procedures

- Segregation of duties due to lack of personnel

Our management concluded that considering internal control deficiencies that, in the aggregate, rise to the level of material weaknesses, we did not maintain effective internal control over financial reporting as of December 31, 2019 based on the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Remediation Efforts

Following this assessment and during the twelve months ended December 31, 2019, we have undertaken an action plan to strengthen internal controls and procedures:

- We continue to improve the process around inventory counts. At year-end we contracted with an independent 3rd party to perform a physical inventory count at the vast majority of our retail locations. The purpose being the validation of our inventory records and increasing the staff knowledge around the importance of the new inventory procedures implemented.

- Our management continues to remain their focus on the Company's purchase order process in order to better manage inventory thereby improving cash management and ultimately leading to more reliable and precise financial reporting.

Our management continues to review ways in which we can make improvements in internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The following table sets forth information regarding our executive officers and directors as of December 31, 2019:

Name	Age	Position
Executive Officers:		
Jeffrey Holman	53	Chief Executive Officer, Chairman and Director
John A. Ollet	57	Chief Financial Officer
Christopher Santi	49	President and Chief Operating Officer
Non-Employee Directors:		
Clifford J. Friedman	58	Director
Dr. Anthony Panariello	60	Director

Executive Officers

Jeffrey Holman has been our Chairman of the Board and Chief Executive Officer since April 2014. From February 2013 until March 4, 2015, Mr. Holman serviced as our President. Mr. Holman has been a member of our Board since May 2013 and has served as a member of the Board of Directors of our subsidiary Smoke Anywhere, USA since its inception on March 24, 2008. Since 1998, Mr. Holman has been the President of Jeffrey E. Holman & Associates, P.A., a South Florida based law firm. He has also been a Partner in the law firm of Holman, Cohen & Valencia since 2000. Mr. Holman was selected as a director for his business and legal experience. In addition, as one of the founders of Smoke Anywhere, Mr. Holman possesses an in-depth understanding of the challenges, risks and characteristics unique to our industry.

Christopher Santi has been our Chief Operating Officer since December 12, 2012 and has also served as the President since April 11, 2016. Previously, Mr. Santi served as Director of Operations of the Company beginning in October 2011. Mr. Santi served as the National Sales Manager of Collages.net from November 2007 to October 2011.

John A. Ollet has been our Chief Financial Officer since December 12, 2016. Mr. Ollet previously served as Executive Vice President-Finance for Systemax, Inc. (NYSE:SYX) from 2006 to 2016. His prior chief financial officer experience also includes serving as Vice President and Chief Financial Officer of Arrow Cargo Holdings, Inc., an airline logistics company, and VP Finance /CFO - The Americas - Cargo Division, KLM Royal Dutch Airlines, an airline company. He also previously served as Vice President Finance/Administration at Sterling-Starr Maritime Group, Inc. and served on the audit staff of Arthur Andersen & Co. Mr. Ollet received a bachelor’s degree in Finance/Economics and a master’s degree in business administration from Florida International University. Mr. Ollet is a Certified Public Accountant.

Non-Employee Directors

Anthony Panariello, M.D. has been a director since April 15, 2016. Dr. Panariello is a Board Certified in Pulmonology and Internal Medicine in Florida and has been in private practice since 1996, serving as an attending physician at a number of hospitals. Dr. Panariello is a member of the College of Physicians and the American College of Chest Physicians. Additionally, Dr. Panariello currently serves as a Lieutenant Commander in the Medical Corps of the United States Navy Reserve. Dr. Panariello received his Bachelor of Science from the State University of New York at Stony Brook and his medical degree from the Autonomous University of Guadalajara.

Clifford J. Friedman has been a director since April 15, 2016. Mr. Friedman is a certified public accountant in Coral Springs, Florida and manages his own public accounting, tax and consulting practice since 2001. From 1992 to 2000, Mr. Friedman was Vice President - Finance and Administration of the Box Worldwide, Inc., a Viacom company. He received an M.B.A. from Nova Southeastern University and his B.B.A. from Pace University.

Corporate Governance

Board Responsibilities

The Board oversees, counsels, and directs management in the long-term interest of the Company and its stockholders. The Board’s responsibilities include establishing broad corporate policies and reviewing the overall performance of the Company. The Board is not, however, involved in the operating details on a day-to-day basis.

Board Committees and Charters

The Board and its Committees meet throughout the year and act by written consent from time-to-time as appropriate. The Board delegates various responsibilities and authority to different Board Committees. Committees regularly report on their activities and actions to the Board.

The Board currently has and appoints the members of: The Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each of these committees have a written charter which can be found on our corporate website at www.healthiercmc.com/committee-charters/.

The following table identifies the independent and non-independent current Board and committee members:

Name	Independent	Audit	Compensation	Nominating And Corporate Governance
Jeffrey Holman				
Dr. Anthony Panariello	X	X	X	X
Clifford J. Friedman	X	X	X	X

Director Independence

Our Board has determined that Clifford J. Friedman and Dr. Anthony Panariello are independent in accordance with standards under the OTC Pink Marketplace. Our Board determined that as a result of being executive officer, Messrs. Jeffrey Holman is not independent under the OTC Pink Marketplace Bulletin Boards. Our Board has also determined that Clifford J. Friedman and Dr. Anthony Panariello are independent under the OTC Pink Marketplace independence standards for Audit and Compensation Committee members.

Committees of the Board

Audit Committee

The Audit Committee, which currently consists of Clifford J. Friedman (chair) and Dr. Anthony Panariello, reviews the Company's financial reporting process on behalf of the Board and administers our engagement of the independent registered public accounting firm. The Audit Committee approves all audit and non-audit services, and reviews the independence of our independent registered public accounting firm.

Audit Committee Financial Expert

Our Board has determined that Clifford J. Friedman is qualified as an Audit Committee Financial Expert, as that term is defined by the rules of the SEC and in compliance with the Sarbanes-Oxley Act of 2002.

Compensation Committee

The function of the Compensation Committee is to determine the compensation of our executive officers. The Compensation Committee has the power to set performance targets for determining periodic bonuses payable to executive officers and may review and make recommendations with respect to stockholder proposals related to compensation matters. Additionally, the Compensation Committee is responsible for administering the Company's equity compensation plans including the Plan.

The members of the Compensation Committee are all independent directors within the meaning of applicable Nasdaq Listing Rules and all of the members are "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act.

Nominating and Corporate Governance Committee

The responsibilities of the Nominating and Corporate Governance Committee include the identification of individuals qualified to become Board members, the selection of nominees to stand for election as directors, the oversight of the selection and composition of committees of the Board, establish procedures for the nomination process including procedures and the oversight of the evaluations of the Board and management. The Nominating and Corporate Governance Committee has not established a policy with regard to the consideration of any candidates recommended by stockholders since no stockholders have made any recommendations. If we receive any stockholder recommended nominations, the Nominating Committee will carefully review the recommendation(s) and consider such recommendation(s) in good faith.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee has ever been an officer or employee of the Company. None of our executive officers serve, or have served during the last fiscal year, as a member of our compensation committee or other Board committee performing equivalent functions of any entity that has one or more executive officers serving on our Board or on our compensation committee.

Board Assessment of Risk

The Board is actively involved in the oversight of risks that could affect the Company. This oversight is conducted primarily through the Audit Committee, but the full Board has retained responsibility for general oversight of risks. The Audit Committee considers and reviews with our independent public accounting firm and management the adequacy of our internal controls, including the processes for identifying significant risks and exposures, and elicits recommendations for the improvements of such procedures where desirable. In addition to the Audit Committee’s role, the full Board is involved in oversight and administration of risk and risk management practices. Members of our senior management have day-to-day responsibility for risk management and establishing risk management practices, and members of management are expected to report matters relating specifically to the Audit Committee directly thereto, and to report all other matters directly to the Board as a whole. Members of our senior management have an open line of communication to the Board and have the discretion to raise issues from time-to-time in any manner they deem appropriate, and management’s reporting on issues relating to risk management typically occurs through direct communication with directors or committee members as matters requiring attention arise. Members of our senior management regularly attend portions of the Board’s meetings, and often discuss the risks related to our business.

Presently, the largest risks affecting the Company are the Company’s ability to manage and satisfy the Series A Warrant obligations and evaluation of potential adverse impact of the FDA’s final regulations on vaporizers and e-liquids on the retail business operations. The Board actively interfaces with management on seeking solutions.

Code of Ethics

The Company has a code of ethics, "Business Conduct: "Code of Conduct and Policy,” that applies to all of the Company’s employees, including its principal executive officer, principal financial officer and principal accounting officer, and the Board. A copy of this code is available on the Company’s website at http://www.healthiercmc.com/code-of-conduct. The Company intends to disclose any changes in or waivers from its code of ethics by posting such information on its website or by filing a Current Report on Form 8-K.

Stockholder Communications

Although we do not have a formal policy regarding communications with our Board, stockholders may communicate with the Board by writing to us at Healthier Choices Management Corp., 3800 N 28th Way, Hollywood, FL 33020, Attention: Corporate Secretary, or by facsimile (954) 272-7773. Stockholders who would like their submission directed to a member of the Board may so specify, and the communication will be forwarded, as appropriate.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and the other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC rules to furnish us with copies of all Section 16(a) reports they file.

Based solely on a review of the reports furnished to us, or written representations from reporting persons that all reportable transactions were reported and that no Form 5s were required, we believe that during 2019 our officers, directors and greater than 10% owners timely filed all reports they were required to file under Section 16(a).

ITEM 11. Executive Compensation

The following information is related to the compensation paid, distributed or accrued by us for fiscal 2019 to all Chief Executive Officers (principal executive officers) serving during the last fiscal year and the two other most highly compensated executive officers serving at the end of the last fiscal year whose compensation exceeded $100,000. We refer to these individuals as our "named executive officers."

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards/ (Forfeited) (1)$	Restricted Stock Awards(1) $	All Other Compensation ($)	Total
Jeffrey Holman	**2019**	**467,341**	**157,500**	**-**	**-**	**-**	**624,841**
Chief Executive Officer	2018	385,537	-	(1,100,000)	1,100,000	18,500	404,037
Christopher Santi	**2019**	**272,384**	**75,000**	**-**	**-**	**713**	**348,097**
President & Chief Operating Officer	2018	247,043	-	(800,000)	800,000	650	247,693
John Ollet	**2019**	**201,707**	**60,000**	**-**	**-**	**716**	**262,423**
Chief Financial Officer	2018	189,669	-	-	300,000	716	490,385

(1) Amounts reflect the aggregate grant date fair value, without regard to forfeitures, computed in accordance with ASC 718. These amounts represent options and restricted stock of the Company's common stock and do not reflect the actual amounts that may be realized by the Named Executive Officers. Our assumptions with respect to the calculation of the stock options and restricted stock value are set forth in Note 2 to the consolidated financial statements contained herein.

Named Executive Officer Employment Agreements

On August 13, 2018, the Company amended and restated its existing employment agreement with Jeffrey Holman, the Company's Chief Executive Officer (the "***Holman Employment Agreement***"). The Holman Employment Agreement is for an additional three year term and provides for an annual base salary of $450,000 and a target bonus for 2019 only in an amount ranging from 20% to 200% of his base salaries subject to the Company meeting certain earnings before interest, taxes depreciation and amortization performance milestones. Mr. Holman is entitled to receive severance payments, including two years of his then base salary and other benefits in the event of a change of control, termination by the Company without cause, termination for good reason by the executive or non-renewal by the Company. Mr. Holman was also granted 11 billion shares of restricted common stock pursuant to the Holman Employment Agreement Amendment on the condition that 11 billion of his options to purchase Company common stock are forfeited. This restricted stock will vest one year following the date of issuance provided that the grantee remains an employee of the Company through each applicable vesting date. On August 12, 2019, the Company agreed to extend the expiration date of the vesting period for the restricted stock by six months to February 13, 2020. The above description of the terms of the Holman Employment Agreement is not complete and is qualified by reference to the complete document.

Effective as of August 13, 2018, Healthier Choices Management Corp. (the "***Company***") entered into an amendment to the existing employment agreement (the "***Santi Amended Employment Agreement***") with the Company's President and Chief Operating Officer, Christopher Santi. Pursuant to the Santi Amended Employment Agreement, Mr. Santi will continue to be employed as the Company's President and Chief Operating Officer for an additional one year extension period through January 29, 2021. Mr. Santi will receive a base salary of $330,000 for this additional year. The severance pay period for termination without cause was increased to up to 18 months based on time of service. Mr. Santi was also granted 8 billion shares of restricted common stock pursuant to the Santi Amended Employment Agreement on the condition that 8 billion of his options to purchase Company common stock are forfeited. This restricted stock will vest one year following the date of issuance provided that the grantee remains an employee of the Company through each applicable vesting date. On August 12, 2019, the Company agreed to extend the expiration date of the vesting period for the restricted stock by six months to February 13, 2020. The above description of the terms of the Santi Amended Employment Agreement is not complete and is qualified by reference to the complete document

Effective as of August 13, 2018, the Company entered into an amendment to the existing employment agreement (the "***Ollet Amended Employment Agreement***") with the Company's Chief Financial Officer, John Ollet. Pursuant to the Ollet Amended Employment Agreement, Mr. Ollet will continue to be employed as the Company's Chief Financial Officer for an additional one year extension period through December 12, 2020. Mr. Ollet will receive a base salary of $250,000 for this additional year. Mr. Ollet was also granted 3 billion shares of restricted common stock pursuant to the Ollet Amended Employment Agreement. This restricted stock will vest one year following the date of issuance provided that the grantee remains an employee of the Company through each applicable vesting date. On August 12, 2019, the Company agreed to extend the expiration date of the vesting period for the restricted stock by six months to February 13, 2020. The above description of the terms of the Ollet Amended Employment Agreement not complete and is qualified by reference to the complete document.

Under the Restricted Stock Award Agreements with Messrs. Holman, Ollet and Santi, each recipient will have all rights of a stockholder of the Company, except the right to receive any dividends thereon until vested. This restricted stock will vest one year following the date of issuance provided that the grantee remains an employee of the Company through each applicable vesting date. On August 12, 2019, the Company amended the Restricted Stock Award Agreements with the purpose of extending the expiration date of the vesting period for the restricted stock by six months to February 13, 2020.

Termination Provisions

The table below describes the severance payments that our Named Executive Officers are entitled to in connection with a termination of their employment upon death, disability, dismissal without cause, Change of Control or for Good Reason. All of the termination provisions are intended to comply with Section 409A of the Internal Revenue Code of 1986 and the Regulations thereunder.

	Holman	**Santi/Ollet**
Death or Total Disability	Any amounts due at time of termination plus full vesting of equity awards	Any amounts due at time of termination
Dismissal Without Cause or Termination by Executive for Good Reason or upon a Change of Control (1)	Two years of Base Salary, full vesting of equity awards, benefit continuation for eighteen months plus pro-rated bonus if, any, that would have been earned for the fiscal year in which the termination occurs	Fifteen months of Base Salary plus one additional month for every additional four months of service, up to eighteen months' maximum
Termination upon a Change of Control (2)	Two years of Base Salary, full vesting of equity awards, benefit continuation for eighteen months plus pro-rated bonus if, any, that would have been earned for the fiscal year in which the termination occurs	Eighteen months of Base Salary

(1) Good reason is generally (with certain exceptions) defined, in the case of Holman, as (i) a material diminution in their authority, duties or responsibilities, (y) the Company failing to maintain an office in the stated area or (ii) any other action or inaction that constitutes a material breach by the Company of the Employment Agreement. Messrs. Ollet and Santi's employment agreement do not include the concept of good reason.

(2) Change of Control is generally defined (i) in the case of Holman, as any Change of Control Event as defined in Treasury Regulation Section 1.409A-3(i)(5); and (ii) in the case of Santi, as (w) a sale of substantially all of the Company, (x) any "person" (as such term is defined under the Exchange Act) becomes the beneficial owners of over 50% of the Company's voting power, (y) a change in the majority of the composition of the Board or (z) a transaction that results in over 50% of the Company's voting power ceasing to hold a majority of the voting power post-transaction.

Risk Assessment Regarding Compensation Policies and Practices as they Relate to Risk Management

Our compensation program for employees does not create incentives for excessive risk taking by our employees or involve risks that are reasonably likely to have a material adverse effect on us. Our compensation has the following risk-limiting characteristics:

- Our base pay programs consist of competitive salary rates that represent a reasonable portion of total compensation and provide a reliable level of income on a regular basis, which decreases incentive on the part of our executives to take unnecessary or imprudent risks; and

- Cash bonus awards are not tied to formulas that could focus executives on specific short-term outcomes.

Outstanding Awards at Fiscal Year End

Listed below is information with respect to unexercised options that have not vested, and equity incentive plan awards for each named executive officer outstanding as of December 31, 2019:

Outstanding Equity Awards at 2019 Fiscal Year-End

Name	Number of Shares Issued Under Stock Options	Number of Shares Issued Under Restricted Stock	Stock Options and Restricted Stock Exercise Price ($) Per Share of Stock	Expiration Date	Number of Shares That Have Not Vested (#)	Market Value of Shares That Have Not Vested ($)
Jeffrey Holman	-	11,000,000,000	0.0001	8/13/2028	11,000,000,000	1,100,000
Jeffrey Holman	39,000,000,000	-	0.0001	2/1/2027	-	-
Christopher Santi	-	8,000,000,000	0.0001	8/13/2028	8,000,000,000	800,000
Christopher Santi	17,000,000,000	-	0.0001	2/1/2027	-	-
John Ollet	-	3,000,000,000	0.0001	8/13/2028	3,000,000,000	300,000
John Ollet	1,000,000,000	-	0.0001	12/9/2026	-	-
John Ollet	4,000,000,000	-	0.0001	8/30/2027	-	-

Director Compensation

Non-employee directors are paid a monthly fee of $1,000 per month and $1,000 for each meeting attended. Because we do not pay any compensation to employee directors, Mr. Holman is omitted from the following table. Non-employee members of our Board of Directors were compensated for as follows:

Fiscal 2019 Director Compensation

Name	Fees Earned or Paid in Cash ($)
Dr. Anthony Panariello	$ 21,000
Clifford J. Friedman	$ 21,000

Equity Compensation Plan Information

The 2015 Equity Incentive Plan (the "Plan") was approved by the Company's stockholders at the June 26, 2015 stockholders meeting. On November 21, 2016, the Company's Board of Directors increased the number of shares of common stock available for issuance pursuant to the Plan to 100,000,000,000. The Plan is a broad-based plan in which all employees, consultants, officers, and directors of the Company are eligible to participate. The purpose of the Plan is to further the growth and development of the Company by providing, through ownership of stock of the Company and other equity-based awards, an incentive to its officers and other key employees and consultants who are in a position to contribute materially to the prosperity of the Company, to increase such persons' interests in the Company's welfare, by encouraging them to continue their services to the Company, and by enabling the Company to attract individuals of outstanding ability to become employees, consultants, officers and directors of the Company.

The following chart reflects the number of awards granted under equity compensation plans approved and not approved by stockholders and the weighted average exercise price for such plans as of December 31, 2019.

Name of Plan	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
2015 Equity Incentive Plan	87,894,750,004	0.0001	11,130,249,996
Total	87,894,750,004	-	11,130,249,996

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

The following table sets forth the number of shares of our common stock beneficially owned as of December 31, 2019, by (i) those persons known by us to be owners of more than 5% of our common stock, (ii) each director, (iii) our Named Executive Officers and (iv) all of our executive officers and directors of as a group. Unless otherwise specified in the notes to this table, the address for each person is: c/o Healthier Choices Management Corp., 3800 North 28th Way, Hollywood, Florida 33020.

Title of Class	Beneficial Owner	Amount and Nature of Beneficial Owner (1)	Percent of Class (1)
Directors and Executive Officers:			
Common Stock	Jeffrey E. Holman (2)	13,320,213,974	18.37%
Common Stock	Christopher Santi (3)	13,320,213,974	18.37%
Common Stock	John Ollet (4)	5,000,000,000	6.90%
Common Stock	Dr. Anthony Panariello (5)	1,500,000,000	2.07%
Common Stock	Clifford J. Friedman (6)	1,500,000,000	2.07%
	All directors and officers as a group (5 persons) (7)	34,640,427,948	47.78%
5% Stockholders:			
None		-	0%
Total:		34,640,427,948	47.78%

(1) Beneficial Ownership. Applicable percentages are based on 77,661,544,971 shares of common stock outstanding as of May 13, 2020. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants, convertible notes and preferred stock currently exercisable or convertible or exercisable or convertible within 60 days are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. The table includes shares of common stock, options, warrants, and preferred stock exercisable or convertible into common stock and vested or vesting within 60 days. Unless otherwise indicated in the footnotes to this table, we believe that each of the stockholders named in the table has sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by them. The table does not include: (i) restricted stock units that do not have the right to vote until they vest and the shares are delivered or (ii) unvested options that do not vest within 60 days of the date listed above in this footnote.

(2) Holman. Chairman and Chief Executive Officer. Includes 39,000,000,000 vested options and 11,000,000,000 shares of unvested restricted Common Stock. The option agreement includes a provision that prevents Mr. Holman from exercising the option into common stock to the extent (but only to the extent) that such conversion would result in the holder, or any of its affiliates, beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) more than 19.9% of the Company's outstanding Common Stock (the "Exercise Blocker"). Without the Exercise Blocker, Mr. Holman would be deemed to beneficially own 50,000,000,000 shares of Common Stock pursuant to vested options.

(3) Santi. President and Chief Operating Officer. Includes 17,000,000,000 vested options and 8,000,000,000 shares of unvested restricted Common Stock. The option agreement of Mr. Santi includes the Exercise Blocker. Without the Exercise Blocker, Mr. Santi would be deemed to beneficially own 25,000,000,000 shares of Common Stock pursuant to vested options.

(4) Ollet. Chief Financial Officer. Includes 5,000,000,000 vested options. He also holds 3,000,000,000 shares of unvested restricted Common Stock. The option agreement of Mr. Ollet includes the Exercise Blocker.

(5) Panariello. A director. Includes 1,000,000,000 vested options and 500,000,000 shares of Common Stock. He also holds 500,000,000 shares of unvested restricted Common Stock.

(6) Friedman. A director. Includes 1,000,000,000 vested options and 500,000,000 shares of Common Stock. He also holds 500,000,000 shares of unvested restricted Common Stock.

(7) Directors and Executive Officers. Includes executive officers who are not Named Executive Officers under the SEC's rules and regulations.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

For the year ended December 31, 2019, the Company did not have any related party transactions.

Policies and Procedures for Related Party Transactions

We have adopted a policy that our executive officers, directors, nominees for election as a director, beneficial owners of more than 5% of any class of our common stock and any members of the immediate family of any of the foregoing persons are not permitted to enter into a related person transaction with us without the prior consent of our audit committee. Our audit committee will review and oversee all transactions with an executive officer, director, nominee for election as a director, beneficial owner of more than 5% of any class of our common stock or any member of the immediate family of any of the foregoing persons and such person would have a direct or indirect interest. In approving or rejecting any such transactions, our audit committee is to consider the material facts of the transaction, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person's interest in the transaction.

Item 14. Principal Accounting Fees and Services.

Our Audit Committee pre-approves audit and permissible non-audit services performed by its independent registered public accounting firm, as well as the fees charged for such services. All of the services related to audit fees and audit-related fees charged were pre-approved by the Audit Committee. The following table shows the fees for the years ended December 31, 2019 and 2018.

	2019 ($)	2018 ($)
Audit Fees (1)	**$ 179,000**	$ 208,000
Total	**$ 179,000**	$ 208,000

(1) Audit fees — these fees relate to the audit of our annual financial statements and the review of our interim quarterly financial statements and our registration statements.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of the report.

(1) Financial Statements. See Index to Consolidated Financial Statements, which appears on page F-1 hereof. The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item.

(2) Financial Statements Schedules. All schedules are omitted because they are not applicable or because the required information is contained in the consolidated financial statements or notes included in this report.

(3) Exhibits. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

FINANCIAL STATEMENT INDEX

Report of Independent Registered Public Accounting Firm	**F-2**
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2019 and 2018	**F-3**
Consolidated Statements of Operations for the Years Ended December 31, 2019 and 2018	**F-4**
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2019 and 2018	**F-5**
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019 and 2018	**F-6**
Notes to Consolidated Financial Statements	**F-7**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Healthier Choices Management Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Healthier Choices Management Corp. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2017.

New York, NY
May 13, 2020

HEALTHIER CHOICES MANAGEMENT CORP.
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 3,525,415**	$ 7,061,253
Accounts receivable, net of allowance of $- and $3,000, respectively	**65,401**	65,951
Inventories	**1,757,012**	1,864,619
Prepaid expenses and vendor deposits	**269,833**	388,578
Investment	**24,000**	90,857
Contract assets	**-**	32,400
TOTAL CURRENT ASSETS	**5,641,661**	9,503,658
Property and equipment, net of accumulated depreciation	**332,290**	497,039
Intangible assets, net of accumulated amortization	**1,923,447**	3,062,204
Goodwill	**956,000**	1,437,314
Note receivable	**343,387**	528,007
Right of use asset – operating lease, net	**4,663,019**	-
Other assets	**146,865**	144,441
TOTAL ASSETS	**$ 14,006,669**	$ 15,172,663
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 825,860**	$ 1,301,418
Contract liabilities	**26,823**	442,630
Operating lease liability, current	**555,959**	-
Current portion of line of credit	**2,000,000**	1,868,460
Current portion of loan payment	**282,344**	282,224
Derivative liabilities – warrants	**-**	1,722,928
TOTAL CURRENT LIABILITIES	**3,690,986**	5,617,660
Loan payable, net of current portion	**869,223**	1,128,234
Operating lease liability, net of current	**3,544,729**	-
TOTAL LIABILITIES	**8,104,938**	6,745,894
COMMITMENTS AND CONTINGENCIES (SEE NOTE 12)		
STOCKHOLDERS' EQUITY		
Series B convertible preferred stock, $1,000 par value per share, 30,000 shares authorized; 20,150 shares issued and outstanding as of December 31, 2019 and 2018; aggregate liquidation preference of $20.2 million	**20,150,116**	20,150,116
Common Stock, $0.0001 par value per share, 750,000,000,000 shares authorized; 67,698,494,244 and 66,623,514,522 shares issued and outstanding as of December 31, 2019 and 2018, respectively	**6,769,849**	6,662,351
Additional paid-in capital	**7,618,245**	7,348,390
Accumulated deficit	**(28,636,479)**	(25,734,088)
TOTAL STOCKHOLDERS' EQUITY	**5,901,731**	8,426,769
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 14,006,669**	$ 15,172,663

See notes to consolidated financial statements

HEALTHIER CHOICES MANAGEMENT CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2019	2018
SALES:		
Vapor sales, net	$ **4,134,701**	$ 6,281,198
Grocery sales, net	**10,979,305**	8,365,842
TOTAL SALES, NET	**15,114,006**	14,647,040
Cost of sales vapor	**1,690,734**	2,651,110
Cost of sales grocery	**6,939,028**	4,831,043
GROSS PROFIT	**6,484,244**	7,164,887
OPERATING EXPENSES:		
Advertising	**166,430**	193,955
Impairment of goodwill	**481,314**	-
Selling, general and administrative	**10,250,784**	9,952,858
Total operating expenses	**10,898,528**	10,146,813
LOSS FROM OPERATIONS	**(4,414,284)**	(2,981,926)
OTHER INCOME (EXPENSE):		
Loss on extinguishment of warrants in exchange for preferred stock/revaluation	**-**	(10,696,774)
Gain on revaluation of warrants	**1,719,816**	-
Other income	**24,800**	475,430
Interest income	**108,374**	108,067
Interest expense	**(171,225)**	(8,915)
Loss on investment	**(66,857)**	(59,143)
Total other income (expense), net	**1,614,908**	(10,181,335)
NET LOSS	$ **(2,799,376)**	$ (13,163,261)
NET LOSS PER SHARE BASIC AND DILUTED	$ **0.00**	$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	**66,977,667,455**	42,696,521,421

See notes to consolidated financial statements

HEALTHIER CHOICES MANAGEMENT CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance – December 31, 2017	**-**	**$ -**	**29,348,867,108**	**$ 2,934,887**	**$ 10,080,238**	**$ (12,570,827)**	**$ 444,298**
Issuance of common stock in connection with cashless exercise of Series A warrants	-	-	4,270,589,636	427,058	(251,513)	-	175,545
Stock options exercised	-	-	787,777,778	78,778	-	-	78,778
Issuance of Series B Convertible Preferred Stock	20,722	20,721,744	-	-	(1,692,747)	-	19,028,997
Modification of share-based payment awards to officers	-	-	19,000,000,000	1,900,000	(1,900,000)	-	-
Issuance of awarded restricted stock to officer	-	-	3,000,000,000	300,000	(300,000)	-	-
Issuance of awarded common stock for professional services	-	-	3,000,000,000	300,000	(300,000)	-	-
Preferred stock converted	(572)	(571,628)	5,716,280,000	571,628	-	-	-
Investment in MJ Holdings, Inc. - Share exchange	-	-	1,500,000,000	150,000	-	-	150,000
Stock-based compensation expense	-	-	-	-	1,712,412	-	1,712,412
Net loss	-	-	-	-	-	(13,163,261)	(13,163,261)
Balance – December 31, 2018	**20,150**	20,150,116	**66,623,514,522**	**$ 6,662,351**	**$ 7,348,390**	**$ (25,734,088)**	**$ 8,426,769**
Issuance of common stock in connection with cashless exercise of Series A warrants	-	-	74,979,722	7,498	(4,386)	-	3,112
Issuance of awarded common stock for professional services	-	-	1,000,000,000	100,000	(100,000)	-	-
Cumulative effect on adoption of ASC842	-	-	-	-	-	(103,015)	(103,015)
Stock-based compensation expense	-	-	-	-	374,241	-	374,241
Net loss	-	-	-	-	-	(2,799,376)	(2,799,376)
Balance – December 31, 2019	**20,150**	**$ 20,150,116**	**67,698,494,244**	**$ 6,769,849**	**$ 7,618,245**	**$ (28,636,479)**	**$ 5,901,731**

See notes to consolidated financial statements

HEALTHIER CHOICES MANAGEMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2019	2018
OPERATING ACTIVITIES:		
Net loss	$ **(2,799,376)**	$ (13,163,261)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in provision for doubtful accounts	**(3,002)**	(15,993)
Depreciation and amortization	**594,940**	375,690
Loss on disposal of assets	**27,013**	2,696
Change in fair value of Series A warrants	**-**	10,696,774
Amortization of right-of-use asset	**325,208**	-
Loss on investment	**66,857**	59,143
Stock-based compensation expense	**374,241**	1,712,412
Impairment of goodwill	**481,314**	-
Change in fair value of derivative liabilities	**(1,719,816)**	-
Changes in operating assets and liabilities:		
Accounts receivable	**27,202**	39,610
Inventories	**107,607**	(252,969)
Prepaid expenses and vendor deposits	**92,900**	(269,177)
Contract assets	**32,400**	(32,400)
Other assets	**(2,424)**	(27,197)
Accounts payable	**(475,558)**	349,890
Contract liabilities	**(415,807)**	381,318
Lease liability	**(248,940)**	-
NET CASH USED IN OPERATING ACTIVITIES	**(3,535,241)**	(143,464)
INVESTING ACTIVITIES:		
Acquisition of Paradise and The Vitamin Store	**-**	(3,250,000)
Issuance of note receivable	**-**	(582,260)
Collection of note receivable	**184,620**	54,253
Purchases of patent	**(25,000)**	(170,250)
Purchases of property and equipment	**(32,866)**	(75,343)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**126,754**	(4,023,600)
FINANCING ACTIVITIES:		
Proceeds from line of credit	**131,540**	1,868,460
Proceeds from loan payable	**-**	1,400,000
Principal payments on loan payable	**(258,891)**	(2,112)
Proceeds from exercise of stock options	**-**	78,778
NET CASH USED IN FINANCING ACTIVITIES	**(127,351)**	3,345,126
DECREASE IN CASH	**(3,535,838)**	(821,938)
CASH AND CASH EQUIVALENTS — BEGINNING OF YEAR	**7,061,253**	7,883,191
CASH AND CASH EQUIVALENTS — END OF YEAR	$ **3,525,415**	$ 7,061,253
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ **143,901**	$ 7,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock in connection with cashless exercise of Series A warrants	$ **3,000**	$ 176,000
Issuance of Series B Convertible Preferred Stock in connection with the warrants settlement	$ **-**	19,028,997
Transfer of debt from prior note receivable	$ **-**	82,260

See notes to consolidated financial statements

Note 1. ORGANIZATION, GOING CONCERN, BASIS OF PRESENTATION, AND RECENT DEVELOPMENTS

Organization

Healthier Choices Management Corp. (the "Company") is a holding company focused on providing consumers with healthier daily choices with respect to nutrition and other lifestyle alternatives. The Company currently operates nine retail vape stores in the Southeast region of the United States, through which it offers e-liquids, vaporizers and related products. The Company also operates Ada's Natural Market, a natural and organic grocery store, through its wholly owned subsidiary Healthy Choice Markets, Inc. Ada's Natural Market and Paradise Health and Nutrition offers fresh produce, bulk foods, vitamins and supplements, packaged groceries, meat and seafood, deli, baked goods, dairy products, frozen foods, health & beauty products and natural household items. The Company also sells vitamins and supplements on the Amazon.com marketplace through its wholly owned subsidiary Healthy U Wholesale, Inc. The Company markets the Q-Cup™ technology under the vape segment; this patented technology is based on a small, quartz cup called the Q-Cup™, which a customer partially fills with either cannabis or CBD concentrate (approximately 50mg) purchased from a third party. The Q-Cup™ is then inserted into the Q-Cup™ Tank or Globe, that heats the cup from the outside without coming in direct contact with the solid concentrate. This Q-Cup™ technology provides significantly more efficiency and an "on the go" solution for consumers who prefer to vape concentrates either medicinally or recreationally.

Going Concern and Liquidity

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate continuation of the Company as a going concern and realization of assets and satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of any uncertainties related to our going concern assessment. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values.

The Company currently and historically has reported net losses and cash outflows from operations. As of December 31, 2019, cash and cash equivalents totaled approximately $3.5 million. While we anticipate that our current cash, cash equivalents, and cash to be generated from operations will be sufficient to meet our projected operating plans for the foreseeable future through a year and a day from the issuance of these consolidated financial statements, should we require additional funds (either through equity or debt financings, collaborative agreements or from other sources), we have no commitments to obtain such additional financing and we may not be able to obtain any such additional financing on terms favorable to us, or at all.

Sourcing and Vendors.

We source from multiple suppliers. These suppliers range from small independent businesses to multinational conglomerates. For the fiscal years ended December 31, 2019 and 2018, approximately 24% and 30% of our total purchases were from one vendor.

Basis of Presentation and Principles of Consolidation

The Company's consolidated financial statements are prepared in accordance with GAAP. The consolidated financial statements include the accounts of all subsidiaries in which the Company holds a controlling financial interest as of the financial statement date.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Healthy Choice Markets, Inc., Healthy Choice Markets 2, LLC ("Paradise Health and Nutrition"), The Vitamin Store, LLC, Healthy U Wholesale, Inc., The Vape Store, Inc. ("Vape Store"), Vaporin, Inc. ("Vaporin"), Smoke Anywhere U.S.A., Inc. ("Smoke"), Emagine the Vape Store, LLC ("Emagine"), IVGI Acquisition, Inc., Vapormax Franchising LLC, Vaporin LLC, and Vaporin Florida, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the operating decision makers, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's decision-making group are the senior executive management team. The Company and the decision-making group view the Company's operations and manage its business as two operating segments. All long-lived assets of the Company reside in the U.S.

Use of Estimates in the Preparation of the Financial Statements

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements, and the reported amounts of net revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include allowances, reserves and write-downs of receivables and inventory, valuing equity securities and hybrid instruments, share-based payment arrangements, deferred taxes and related valuation allowances, and the valuation of the assets and liabilities acquired in business combinations. Certain of management's estimates could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. The Company re-evaluates all of its accounting estimates at least quarterly based on these conditions and records adjustments when necessary.

Revenue Recognition

Revenues from product sales and services rendered, net of promotional discounts, manufacturer coupons and rebates, return allowances, and sales and consumption taxes, are recorded when products are delivered, title passes to customers and collection is likely to occur. Title passes to customers at the point of sale for retail and upon delivery of products for wholesale. Return allowances, which reduce revenue, are estimated using historical experience.

The Company recognizes revenue in accordance with the following five-step model:

- identify arrangements with customers;
- identify performance obligations;
- determine transaction price;
- allocate transaction price to the separate performance obligations in the arrangement, if more than one exists; and
- recognize revenue as performance obligations are satisfied.

Shipping and Handling

Shipping charges billed to customers are included in net sales and the related shipping and handling costs are included in cost of sales. For the years ended December 31, 2019 and 2018, shipping and handling costs of approximately $82,000 and $101,000, were included in cost of sales, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less, when purchased, to be cash and cash equivalents. The majority of the Company's cash and cash equivalents are concentrated in one large financial institution, which is in excess of Federal Deposit Insurance Corporation (FDIC) coverage. At December 31, 2019, cash in excess of FDIC limits of $250,000 per financial institution were approximately $2.5 million. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests, as deposits are held in excess of federally insured limits. The Company's cash equivalent at December 31, 2019 was a money market account. The Company has not experienced any losses in such accounts.

Accounts Receivable, Contract Assets and Contract Liabilities

Accounts receivable are claims to consideration which are unconditional; meaning no performance obligations remain for the Company and only the passage of time is necessary before collection. Contract assets are distinguished from accounts receivable as performance obligations remain before claims to consideration become unconditional. By nature of the Company's operations, contract assets are typically not recognized. Contract liabilities are recorded when customers transfer consideration in advance of delivery of products or services, which the Company records for gift cards and loyalty reward programs. When one party to an arrangement performs before the other(s), the Company records an account receivable, contract asset or contract liability.

The majority of arrangements with customers contain one performance obligation: to provide a distinct set of products or services. Most performance obligations are satisfied simultaneously as the Company exchanges products or services for customer payment. Exceptions include gift cards and loyalty rewards, for which the Company has a performance obligation to deliver products or services at a future date. As gift cards are purchased and loyalty points earned, contract liabilities are recorded until the performance obligations are satisfied through delivery of products or services or breakage based on gift card and loyalty reward program term limits. The Company's breakage policy is twenty-four months for gift cards, twelve months for Grocery loyalty rewards, and six months for Vapor loyalty rewards. Loyalty rewards are earned at five percent on qualifying purchases and the reward functions as an allocation of transaction price from the period earned by the customer to the period the performance obligation is satisfied by the Company. As such, all contract liabilities are expected to be recognized within a twenty-four month period.

Concentration of accounts receivable consist of the following:

	December 31, 2019	December 31, 2018
Customer A	**14%**	43%
Customer B	**46%**	-
Customer C	**12%**	-

Due from Merchant Credit Card Processor

Due from merchant credit card processor represents monies held by the Company's credit card processors. The funds are being held by the merchant credit card processors pending satisfaction of their hold requirements and expiration of charge backs/refunds from customers.

Inventories

Inventories are stated at average cost. If the cost of the inventories exceeds their net realizable value, adjustments are recorded to write down excess inventory to their net realizable value. The Company's inventories consist primarily of merchandise available for resale, such as fresh produce, perishable grocery items and non-perishable consumable goods.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the expected useful life of the respective asset, after the asset is placed in service. Revenue earning property and equipment includes signage, furniture and fixtures, computer hardware, appliance, cooler, displays with useful lives range from two to seven years. Leasehold improvements are amortized over life of lease.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets are recorded at cost, or when acquired as part of a business acquisition, at estimated fair value. Certain identifiable intangible assets are amortized over 3 and 15 years. Similar to tangible personal property and equipment, the Company periodically evaluates identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-lived intangible assets, such as goodwill are not amortized.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In connection with this review, the Company also reevaluates the depreciable lives for these assets. The Company assesses recoverability by determining whether the net book value of the related asset will be recovered through the projected undiscounted future cash flows of the asset. If the Company determines that the carrying value of the asset may not be recoverable, it measures any impairment based on the projected future discounted cash flows as compared to the asset's carrying value.

The Company assesses the carrying amounts of goodwill for recoverability on at least an annual basis or when events or changes in circumstances indicate evidence of potential impairment exists, using a fair value based test. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, and the useful life over which cash flows will occur. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for the Company. Our annual impairment test is conducted from December 31st to September 30th of the following year.

Advertising

The Company expenses advertising costs as incurred. For the years ended December 31, 2019 and 2018, the company incurred advertising expenses of $0.2 million, respectively.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). Under this method, income tax expense is recognized as the amount of: (i) taxes payable or refundable for the current year and (ii) future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of available evidence it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation

The Company accounts for stock-based compensation for employees and directors under ASC Topic No. 718, "Compensation-Stock Compensation" ("ASC 718"). These standards define a fair value based method of accounting for stock-based compensation. In accordance with ASC 718, the cost of stock-based compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using an appropriate valuation model, whereby compensation cost is the fair value of the award as determined by the valuation model at the grant date. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Stock-based compensation for non-employees is measured at the grant date, is re-measured at subsequent vesting dates and reporting dates, and is amortized over the service period.

Derivative Instruments

The Company accounts for free-standing derivative instruments and hybrid instruments that contain embedded derivative features in accordance with ASC Topic No. 815, "Derivative Instruments and Hedging Activities," ("ASC 815") as well as related interpretations of this topic. In accordance with this topic, derivative instruments and hybrid instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair values with gains or losses recognized in earnings. Embedded derivatives that are not clearly and closely related to the host contract are bifurcated and are recognized at fair value with changes in fair value recognized as either a gain or loss in earnings. The Company determines the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument.

The Company estimates fair values of derivative instruments and hybrid instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair values. In selecting the appropriate technique, the Company considers, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For complex instruments, the Company utilizes custom Monte Carlo simulation models. For less complex instruments, such as free-standing warrants, the Company generally uses the Binomial Lattice model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk-free rates) necessary to fair value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as the Binomial Lattice model or the Black-Scholes-Merton valuation model) are highly volatile and sensitive to changes in the trading market price of the Company's common stock. Since derivative financial instruments are initially and subsequently carried at fair values, the Company's net income (loss) going forward will reflect the volatility in these estimates and assumption changes. Under ASC 815, increases in the trading price of the Company's common stock and increases in fair value during a given financial period result in the application of non-cash derivative losses. Conversely, decreases in the trading price of the Company's common stock and decreases in trading fair value during a given financial period result in the application of non-cash derivative gains.

Fair Value Measurements

The fair value framework under FASB's guidance requires the categorization of assets and liabilities into three levels based upon the assumptions used to measure the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, would generally require significant management judgment. The three levels for categorizing assets and liabilities under the fair value measurement requirements are as follows:

- Level 1: Fair value measurement of the asset or liability using observable inputs such as quoted prices in active markets for identical assets or liabilities;

- Level 2: Fair value measurement of the asset or liability using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

- Level 3: Fair value measurement of the asset or liability using unobservable inputs that reflect the Company's own assumptions regarding the applicable asset or liability.

Nonfinancial assets such as goodwill, other intangible assets, and long-lived assets held and used are measured at fair value when there is an indicator of impairment and recorded at fair value when impairment is recognized or for a business combination

Sequencing Policy

Under ASC 815-40-35, the Company has adopted a sequencing policy, whereby, in the event that reclassification of contracts from equity to assets or liabilities is necessary pursuant to ASC 815 due to the Company's inability to demonstrate it has sufficient authorized shares, shares will be allocated on the basis of the earliest issuance date of potentially dilutive instruments, with the earliest grants receiving the first allocation of shares.

Note 3. DISAGGREGATION OF REVENUES

The Company reports the following segments in accordance with management guidance: Vapor and Grocery. When the Company prepares its internal management reporting to evaluate business performance, we disaggregate revenue into the following categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	December 31, 2019	December 31, 2018
Vapor sales, net	**$ 4,134,701**	$ 6,281,198
Grocery sales, net	**10,979,305**	8,365,842
Total revenue	**$ 15,114,006**	$ 14,647,040
Retail Vapor	**$ 4,134,243**	$ 6,273,470
Retail Grocery	**9,326,165**	6,142,904
Food service/restaurant	**1,252,167**	1,526,934
Online/e-Commerce	**362,731**	666,927
Wholesale Grocery	**38,242**	29,077
Wholesale Vapor	**458**	7,728
Total revenue	**$ 15,114,006**	$ 14,647,040

Note 4. INVESTMENT

In 2018, the Company invested $150,000 in 85,714 common stock shares at MJ Holdings, Inc. ("MJNE"), a publicly traded company. The investment was made based on the assumption of an increase in MJNE stock due to the sales agreement with the Company. The Company recorded the investment in MJNE at fair value with changes in the fair value reported through the income statement as the stock is traded on the OTC market. Investment is classed with Level 1 of the valuation hierarchy. Fair value for the investment is based on quoted prices in active markets.

Description	**Fair Value Measurements Using Quoted Prices in Active Market (Level 1)**	**Mark to Market**	**Final**
Investment	$ $90,857	$ (66,857)	$ 24,000

Note 5. INVENTORIES

Inventories are stated at average cost. If the cost of the inventories exceeds their market value, adjustments are recorded to write down excess inventory to its net realizable value. Throughout the year, the Company had independent third party counts of its inventory and recorded the write down of inventories amounting to $0.5 million and $0.3 million, approximately, in 2019 and 2018 respectively, as a result of the findings. The Company's inventories consist primarily of merchandise available for resale .

		December 31, 2019		December 31, 2018
Vapor Business	$	352,230	$	425,062
Grocery Business		1,404,782		1,439,557
Total	$	1,757,012	$	1,864,619

Note 6. NOTES RECEIVABLE AND OTHER INCOME

On September 6, 2018, the Company entered into a secured, 36-month promissory note with VPR Brands L.P. for $582,260. The Note bears an interest rate of 0%, which payments thereunder are $4,141 weekly. The Company records all proceeds related to the interest of the Note as interest income as proceeds are received.

A summary of the Note as of December 31, 2019 is presented below:

Description	Due Date	Interest Rate		Loan Amount		Payments Received		Remaining Balance
Promissory Note	9/6/2021	7%	$	582,260	$	238,873	$	343,387

For the year ended December 31, 2019, the Company had a reversal of the valuation allowance reserve and notes receivable collections of approximately $108,374 recorded to other income in the Consolidated Statement of Operations.

Note 7. PROPERTY & EQUIPMENT

Property and equipment consists of the following

	Year Ended December 31,			
		2019		2018
Displays	$	305,558	$	316,380
Furniture and fixtures		246,496		266,216
Leasehold improvements		128,004		128,004
Computer hardware & equipment		143,863		129,876
Other		251,268		235,772
		1,075,189		1,076,248
Less: accumulated depreciation and amortization		(742,899)		(579,209)
Total property and equipment	$	332,290	$	497,039

The Company incurred approximately $0.2 million of depreciation expense for the years ended December 31, 2019 and 2018.

Note 8. GOODWILL AND INTANGIBLE ASSETS

The Company evaluated the carrying value of its goodwill by estimating the fair value of its consolidated business operations through the use of discounted cash flow models, which required management to make significant judgments as to the estimated future cash flows. The ceased retail grocery store expansion coupled with the reduction in revenue resulting from increased competition adversely impacted the Company's projected cash flows and profits. Accordingly, the Company's goodwill was evaluated for impairment. Our 2019 annual impairment test resulted in an impairment being recorded. As part of management's qualitative analysis at December 31, 2019 to determine whether any triggering events have occurred since the annual test date of September 30, 2019, which would indicate an impairment. Management determined that triggering events had occurred through December 31, 2019 and recorded an impairment to goodwill.

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Beginning balance	**$ 1,437,314**	$ 481,314
Goodwill from Acquisitions	**-**	956,000
Impairment of goodwill-retail business	**(481,314)**	-
Ending balance	**$ 956,000**	$ 1,437,314

Intangible assets, net are as follows:

December 31, 2019	**Useful Lives (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Customer relationships	4-10 years	**$ 1,228,000**	**$ (293,260)**	**$ 934,740**
Trade names	8-10 years	**993,000**	**(354,203)**	**638,797**
Patents	10 years	**270,250**	**(49,027)**	**221,223**
Non-compete	4 years	**174,000**	**(45,313)**	**128,687**
Intangible assets, net		**$ 2,665,250**	**$ (741,803)**	**$ 1,923,447**

December 31, 2018	**Useful Lives (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Customer relationships	4-10 years	$ 1,228,000	$ (41,010)	$ 1,186,990
Trade names	8-10 years	993,000	(252,328)	740,672
Favorable lease	15 years	890,000	(150,580)	739,420
Patents	10 years	245,250	(22,940)	222,310
Non-compete	4 years	174,000	(1,813)	172,187
Website	3 years	4,500	(3,875)	625
Intangible assets, net		$ 3,534,750	$ (472,546)	$ 3,062,204

Amortization expense was approximately $0.4 million and $0.2 million for the period ended December 31, 2019 and 2018.
The weighted-average remaining amortization period of the Company's amortizable intangible assets is approximately 7 years as of December 31, 2019. The estimated future amortization of the intangible assets is as follows:

For the years ending December 31,	
2020	**$ 424,650**
2021	**417,650**
2022	**402,265**
2023	**163,400**
2024	**163,400**
Thereafter	**352,082**
Total	**$ 1,923,447**

Note 9. CONTRACT LIABILITIES

The Company's contract liabilities consist of customer deposits, gift cards and loyalty rewards, for which the Company has a performance obligation to deliver products when customers redeem balances or terms expire through breakage. The Company's breakage policy is twenty-four months for gift cards, twelve months for Grocery loyalty rewards, and six months for Vapor loyalty rewards. As such, all contract liabilities are expected to be recognized within a twenty-four month period.

A summary of the contract liabilities activity for the years ended December 31, 2019 and 2018 is presented below:

	Year ended December 31,	
	2019	2018
Beginning balance as January 1,	**$ 442,630**	$ 61,312
Issued	**48,876**	77,637
Redeemed	**(54,724)**	(105,378)
Breakage recognized	**(1,696)**	796
Fulfillment of contracts (1)	**(408,263)**	408,263
Ending balance as of December 31,	**$ 26,823**	$ 442,630

(1) See Note 12. "Commitments and Contingencies" for additional information.

Note 10. LINE OF CREDIT

During the second quarter of 2019, the Company renewed its $2.0 million line of credit agreement with a financial institution that is subject to annual renewal with a variable interest rate of 3% as of December 31, 2019. The collateral amount established in the arrangement with the financial institution is $2.0 million. As of December 31, 2019, the Company does not have any availability to draw funds from line of credit. The maturity date for the line of credit is May 13, 2020.

Note 11. TERM LOAN CREDIT AGREEMENT

On December 31, 2018, the Company entered into a Term Loan Credit Agreement (the "Credit Agreement") with Professional Bank, a Florida banking corporation (the "Bank"), pursuant to which the Company issued a Term Note (the "Term Note") in the principal amount of $1,400,000 in favor of the Bank. The Term Note bears interest at a rate equal to 1.5 percentage points in excess of that rate shown in the Wall Street Journal as the prime rate, adjusted annually (which was 5.50% as of December 31, 2019). The proceeds of the Term Note were used for acquisitions and for general working capital requirements.

The Credit Agreement contains a customary financial covenant for a minimum debt service coverage ratio of 1.25 to 1.0. The Credit Agreement matures on December 31, 2023. In addition, the Credit Agreement provides for monthly principle payments of $22,333 commencing in January 2019 plus applicable interest, and mandatory prepayments with a portion of excess cash flow.

The obligations under the Credit Agreement and the Term Note are guaranteed by the Company and its wholly owned subsidiary, Healthy U Wholesale, Inc.

Principal repayments to be made during the next four years, at which time the long-term debt will be fully repaid, as follow:

Year	**Principle Payment**
2020	$280,000
2021	280,000
2022	280,000
2023	280,000
2024	23,333
Expected payments for the upcoming years	$1,143,333
Plus: Payments made during 2019	256,667
Total Payments	$1,400,000

Note 12. COMMITMENTS AND CONTINGENCIES

Exclusive Distribution Agreement

On August 17, 2018, the Company entered into an Exclusive Distribution Agreement with MJ Holdings, Inc. ("MJNE"). The Agreement grants MJNE the right to exclusively sell and distribute the Company's patented and patent approved quartz 'Q-Cup' technology (the "Q-cups") for the use with cannabis and CBD in the Nevada territory. Pursuant to the terms of the Agreement, MJNE agreed to purchase $2,000,000 in Q-Cups from the Company, of which MJNE delivered the full purchase price in advance. MJNE and the Company mutually agreed to terminate the successive renewals on November 15, 2019.

Legal Proceedings

Two lawsuits were filed against the Company and its subsidiaries in connection with alleged claimed battery defects for an electronic cigarette device. Plaintiffs claim these batteries were sold by a store of the Company's subsidiary and have sued for an undetermined amount of damages (other than a total of $0.4 million of medical costs). The initial complaints were filed between January 2019 and April 2019. We responded to the complaints on April 2019 and May 2019, respectively. Given the lack of information presented by the plaintiffs to date, the Company is unable to predict the outcome of these matters and, at this time, cannot reasonably estimate the possible loss or range of loss with respect to these legal proceedings. As of December 31, 2019, the Company has not accrued for a potential loss for these actions. Given the information received to date, the Company believes the allegations are without merit and intends to vigorously contest such actions. These lawsuits remain in the early stages and progressed minimally in 2019.

Fontem License Agreement

The Company has a non-exclusive license to certain products with Fontem Ventures B.V. ("Fontem"). The Company will make quarterly license and royalty payments in perpetuity to Fontem, based on the sale of qualifying products as defined in the license agreement at a royalty rate of 5.25%. For the years ended December 31, 2019 and 2018, the Company recorded expenses of $40,000 and $59,000 as part of its cost of goods.

Note 13. STOCKHOLDERS' EQUITY

Equity Plans

On July 7, 2015, the stockholders approved the 2015 Equity Incentive Plan (the "2015 Plan"), which is a broad-based plan and awards granted may be restricted stock, restricted stock units, options and stock appreciation rights. The Plan was subsequently amended to increase the number of shares of common stock available for grants to 100,000,000,000. The 2015 Plan had 11,130,249,996 shares of common stock available for grant as of December 31, 2019.

The Company's 2009 Equity Incentive Plan (the "2009 Plan") was adopted by the stockholders on November 24, 2009. The 2009 Plan provides for the granting of incentive stock options to employees, the granting of non-qualified stock options to employees, non-employee directors and consultants, and the granting of restricted stock to employees, non-employee directors and consultants in connection with their retention and/or continued employment by the Company. Options issued under the 2009 Plan generally have a ten-year term and generally become exercisable over a four-year period. Shares subject to awards that expire unexercised or are forfeited or terminated will again become available for issuance under the 2009 Plan. No participant in the 2009 Plan can receive option grants and/or restricted shares for more than 20% of the total shares subject to the 2009 Plan. The 2009 Plan had no shares of common stock available for grant as of December 31, 2019.

Preferred Stock

The Company's amended and restated articles of incorporation authorizes the Company's Board of Directors to issue up to 1,000,000 shares of "blank check" preferred stock, having a $0.001 par value, in one or more series without stockholder approval. Each such series of preferred stock may have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as determined by the Company's Board of Directors. See below for details associated with the designation of the 1,000,000 shares of the Series A preferred stock.

Series B Convertible Preferred Stock

On August 16, 2018, the Company entered into agreements with certain holders of its Series A Warrants. The Company issued Series B Convertible Preferred Stock in exchange for certain Series A Warrants. A total of 20,722 shares of Series B Stock were exchanged for 46,048,318 (adjusted figures summarized in table below) of Series A Warrants (including those warrants issuable pursuant to a unit purchase option). Each share of Series B Stock "Series B Stock" has a stated value equal to $1,000 and is convertible into Common Stock on a fixed basis at a conversion price of $0.00 per share.

Warrants

October 5, 2016, the Company's amended and restated its Series A Warrant Standstill Agreements (the "Amended Standstill Agreements") to permit each holder (each, a "Holder") to effect a "cashless" exercise of the Series A Warrants only on dates when the closing bid price used to determine the "net number" of shares to be issued upon exercise is at or above $0.00. The shares issuable upon the exercise of the Series A Warrants are calculated (1) using a Black Scholes Value of 1,517,936 per share and a closing stock bid price at or above $0.00 and (2) the Company will deliver only common stock upon exercise of the Series A Warrants.

At the years ended December 31, 2019 and 2018, the warrants were valued at the tender offer price of $0.00 and $0.45, respectively, per warrant. Management believes the tender offer price is the best indicator of fair value as it is a Level 2 valuation and no material events indicating the fair value has changed occurred through December 31, 2019. As a result, the Company recorded $1.7 million of an unrealized gain as a result of the revaluation of the fair value of the warrants as of December 31, 2019.

A summary of warrant activity for the years ended December 31, 2019 and 2018 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Term (Yrs.)
Outstanding at January 1, 2018	46,507,712	$ 1,520,919	2.6
Warrants exercised	(392,325)	1,523,947	
Warrants exchanged pursuant to Series B Preferred Stock issuance	3,761,660	(630,042)	
Warrants repurchased	(46,048,318)	630,042	
Outstanding at December 31, 2018	**3,828,729**	**$ 1,522,692**	**1.6**
Warrants exercised	**(6,915)**	**1,518,029**	
Outstanding at December 31, 2019	**3,821,814**	**$ 1,517,936**	**0.6**
Exercisable at December 31, 2019	**3,821,814**	**$ 1,517,936**	**0.6**

A summary of the approximate outstanding warrant common stock equivalents for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Warrants outstanding (A)	**2.7299**	2.7348
Black Scholes value (B)	**$ 1,517,936**	$ 1,522,692
Subtotal (C)=(A) x (B)	**4,143,813**	4,164,258
Closing bid stock price (D)	**$ 0.00**	$ 0.00
Warrant common stock equivalent (C)/(D)	**41,438,000,000**	41,643,000,000

Pursuant to the Series A warrant agreement, the Black Scholes value is calculated by a third-party and utilized in calculating the warrant common stock equivalents at the point of cashless exercise. As such, the value is computed at the end of each reporting period to determine the amount of warrant common stock equivalents outstanding using the formula below:

(Series A warrants * Black Scholes Value) / closing common stock bid price as of two trading days prior.

See Note 14 – Fair Value Measurements for additional details related to the Series A Warrants that were exchanged

Modification of share-based payment awards to officers

On August 13, 2018, the Compensation Committee of the Board of Directors of the Company approved a modification of share-based payment awards to the Chief Executive Officer and Chief Operating Officer of the Company. As part of the share modification, the Chief Executive Officer and Chief Operating Officer were granted 11 billion and 8 billion shares of restricted common stock on the condition that the same number of shares from their options to purchase the Company's common stock are forfeited. However, the shares were issued to the officers and have been reflected in the statement of stockholders' equity. Initially, this restricted stock was schedule to vest one year following the date of issuance provided that the grantee remains an employee of the Company through the vesting date; the vesting schedule was extended and additional six months on August 12, 2019. The share modification did not have an impact on the Consolidated Statements of Operations because both of the officers' options plans were fully amortized as of the first quarter of 2018.

Restricted Stock

On August 13, 2018, the Compensation Committee of the Board of Directors of the Company approved an issuance of restricted stock to the Chief Financial Officer of the Company. The Chief Financial Officer was granted 3 billion shares of restricted common stock, which will vest one year following the date of issuance, provided that the grantee remains an employee of the Company through the vesting date; the vesting schedule was extended and additional six months on August 12, 2019. During the year ended December 31, 2019, the Company recognized stock-based compensation expense of $175,000 from the awarded shares to the Chief Financial Officer.

Stock Options

During the year ended December 31, 2019, the Company granted options for the purchase of 800,000,000 shares of its common stocks, at an aggregate grant date value of $80,000 or $0.00 per option shares.

A summary of option activity during the years ended December 31, 2019 and 2018 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Yrs.)
Outstanding, January 1, 2018	87,155,008,480	$ 0.00	9
Options granted	975,000,000	0.00	
Options exercised	(787,777,800)	0.00	
Options forfeited or expired	(19,030,000,000)	0.00	
Outstanding, December 31, 2018	**68,312,230,680**	**$ 0.00**	**8**
Options granted	**800,000,000**	**0.00**	
Options forfeited or expired	**(750,000,000)**	**0.00**	
Outstanding, December 31, 2019	**68,362,230,680**	**$ 0.00**	**7**
Exercisable at December 31, 2019	**68,362,230,680**	**$ 0.00**	**7**

During the years ended December 31, 2019 and 2018, the Company recognized stock-based compensation expense of approximately $0.4 million and $1.7 million, respectively, in connection with the amortization of stock options, net of recovery of stock-based charges for forfeited stock options. Stock-based compensation expense is included as part of selling, general and administrative expense in the accompanying consolidated statements of operations.

At December 31, 2019, the amount of unamortized stock-based compensation expense on unvested stock options granted to employees, directors and consultants was approximately $$42,000, which will be amortized over a weighted average period of 0.8 years.

Income (Loss) per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon (a) the exercise of stock options (using the treasury stock method); (b) the conversion of Series A convertible preferred stock; (c) the exercise of warrants (using the if-converted method); (d) the vesting of restricted stock units; and (e) the conversion of convertible notes payable. Diluted income (loss) per share excludes the potential common shares, as their effect is antidilutive. The following table summarizes the Company's securities that have been excluded from the calculation of basic and dilutive income (loss) per share as their effect would be anti-dilutive:

	December 31,	
	2019	2018
Preferred stock	**201,501,142,000**	201,501,142,000
Stock options	**68,362,230,680**	68,312,230,680
Warrants	**41,437,627,105**	41,642,670,772
Total	**311,300,999,785**	311,456,043,452

Weighted average shares used in calculating basic and diluted net income (loss) per share are as follows:

	Year Ended December 31, 2019	2018
Basic	**66,977,667,455**	42,696,521,421
Effect of exercise stock options	**-**	-
Effect of exercise warrants	**-**	-
Diluted	**66,977,667,455**	42,696,521,421

Note 14. FAIR VALUE MEASUREMENTS OF DERIVATE LIABILITIES

The following table summarizes the liabilities measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Derivative liabilities – warrants	$ -	$ 1,722,928	$ -	$ 10,231,697
Total derivative liabilities – warrants	$ -	$ 1,722,928	$ -	$ 10,231,697

Note 15. LEASE

The Company has various lease agreements with terms up to 20 years, including leases of retail stores, headquarter and equipment. All the leases are classified as operating leases. The Company adopted Accounting Standards Codification ("ASC") 842, "Leases" ("ASC 842") effective January 1, 2019 using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. We elected not to reassess whether any expired or existing contracts are or contain leases, reassess the lease classification for any expired or existing leases, nor reassess initial direct costs for any existing leases.

The standard had an impact on the Company's consolidated balance sheets, but did not have a material impact on the Company's consolidated statements of operations or consolidated statements of cash flows upon adoption. Upon adoption, the Company recognized right-of-use asset of $4.7 million and lease liability of $4.1 million for operating leases as of January 1, 2019.

The following table presents information about the amount, timing and uncertainty of cash flows arising from the Company's operating leases as of December 31, 2019.

Maturity of Lease Liabilities by Fiscal Year	
2020	$ 733,569
2021	610,613
2022	543,302
2023	441,262
2024	342,005
Thereafter	2,546,695
Total undiscounted operating lease payments	$ 5,217,446
Less: Imputed interest	(1,116,758)
Present value of operating lease liabilities	**$ 4,100,688**

Balance Sheet Classification	
Operating lease liability, current	$ 555,959
Operating lease liability, net of current	3,544,729
Total operating lease liabilities	**$ 4,100,688**

Other Information	
Weighted-average remaining lease term for operating leases	10 years
Weighted-average discount rate for operating leases	4.78%

Rent expense for the years ended December 31, 2019 and 2018 was approximately $1.0 million and $0.7 million, respectively, is included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

The following table represents the components of lease cost are as follows for twelve months ended December 31, 2019:

		December 31, 2019
Operating lease cost	$	561,626
Variable lease cost		342,437
Short-term lease cost		61,709
Total Rent Expense	$	965,772

Cash Flows

Cash paid for amounts included in the present value of operating lease liabilities was $249,000 for the 2019 and was included in operating cash flows. The amortization of the right-of-use asset of $325,208 was included in operating cash flows.

Supplemental balance sheet information related to our operating leases is as follows:

	Balance Sheet Classification		January 1, 2019		December 31, 2019
Right of use asset	Other assets	$	4,988,227	$	4,663,019
Lease liability, current	Current liabilities	$	553,316	$	555,959
Lease liability, net of current	Other liabilities	$	3,796,312	$	3,544,729

Note 16. INCOME TAXES

The Company did not have a provision for income taxes (current or deferred tax expense) for tax years ended December 31, 2019 and 2018. The following is a reconciliation of the expected tax expense (benefit) at the U.S. statutory rate to the actual tax expense (benefit) reflected in the accompanying statement of operations:

	Year Ended December 31,			
		2019		2018
U.S. federal statutory rate	$	(587,869)	$	(2,764,285)
State and local taxes, net of federal benefit		(100,094)		(591,439)
Settlement of warrants		-		2,292,589
Change in valuation allowance		249,935		1,060,083
True-up & deferred adjustment		258,165		5,155
Stock based compensation		17,901		88,903
Other permanent items		6,664		7,882
Change in tax rate		97,731		(73,068)
Other		57,567		(25,820)
	$	-	$	-

As of December 31, 2019 and 2018, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

	Year Ended December 31,			
		2019		2018
Deferred tax assets:				
NOL & AMT credit carryforward	$	12,654,534	$	12,018,190
Inventory reserves and allowances		30,965		132,718
Accrued Expenses and Deferred Income		48,050		-
Charitable contribution		5,284		5,049
Stock based compensation		1,967,795		1,996,647
Net book value of fixed assets		3,978		-
Net book value of intangible assets		666,538		592,560
ASC 842 - Lease Accounting		29,132		-
Total deferred tax assets		15,406,276		14,745,164
Deferred tax liabilities:				
Extinguishment of Warrants		(422,655)		-
Net book value of fixed assets		-		(6,429)
Total deferred tax liabilities		(422,655)		(6,429)
Net deferred tax assets		14,983,621		14,738,735
Valuation allowance		(14,983,621)		(14,738,735)
Net deferred tax assets	$	-	$	-

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the positive and negative evidence available, management has determined that a valuation allowance of $15.0 million and $14.7 million are required at December 31, 2019 and 2018, respectively, to reduce the deferred tax assets to amounts that are more likely than not to be realized. Should the factors underlying management's analysis change, future valuation adjustments to the Company's net deferred tax assets may be necessary.

At December 31, 2019 the Company had U.S. federal and state net operating loss carryforwards ("NOLS") of $53.4 million and $39.9 million, respectively. Federal NOLs of $46.3 million expire beginning in 2030 through 2037 and $7.1 million do not expire. State NOLs of $33.0 million expire beginning in 2030 through 2037 and $6.9 million do not expire. Utilization of our NOLS may be subject to an annual limitation under section 382 and similar state provisions of the Internal Revenue Code due to changes of ownership that may have occurred or that could occur in the future, as defined under the regulations.

As required by the provisions of ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits." A liability is recognized (or amount of NOL or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

If applicable, interest costs and penalties related to unrecognized tax benefits are required to be calculated and would be classified as interest and penalties in general and administrative expense in the statement of operations. As of December 31, 2019, and 2018, no liability for unrecognized tax benefit was required to be reported. No interest or penalties were recorded during the years ended December 31, 2019 and 2018. The Company does not expect any significant changes in its unrecognized tax benefits in the next year. The Company files U.S. federal and Alabama, Florida, Georgia, and Tennessee state income tax returns. As of December 31, 2019, the Company's U.S. federal and state tax returns remain subject to examination by tax authorities beginning with the tax year ended December 31, 2016. However, due to NOLs being generated and carried forward from tax years ended December 31, 2010, 2012, & 2014, these tax years may also be subject to examination.

Subsequent to the issuance of the December 31, 2018 financial statements, the Company determined that the gross deferred tax asset and the related valuation allowance were understated by $7.6 million due to an understatement of net operating loss carryforwards. The effect of correcting these errors is an increase in the net operating loss carryforwards and the deferred tax asset valuation allowance by $7.1 million. The restatement had no impact on the financial position or results of operations of the Company.

Note 17. SEGMENT INFORMATION

Management determines the reportable segments based on the internal reporting used by our executives to evaluate performance and to assess where to allocate resources. The Company evaluates segment performance based on the segment gross profit before corporate expenses.

Summarized below are the total net sales and segment operating profit for each reporting segment:

	Year Ended			
	Net Sales		**Segment Gross Profit**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Vapor	**$ 4,134,701**	$ 6,281,198	**$ 2,443,967**	$ 3,630,088
Grocery	**10,979,305**	8,365,842	**4,040,277**	3,534,799
Total	**$ 15,114,006**	$ 14,647,040	**6,484,244**	7,164,887
Corporate expenses			**10,898,528**	10,146,813
Operating loss			**(4,414,284)**	(2,981,926)
Corporate other income (expense), net			**1,614,908**	(10,181,335)
Net loss			**(2,799,376)**	(13,163,261)

For the year ended December 31, 2019 depreciation and amortization was approximately $41,000 and $0.5 million for Vapor and Grocery, respectively.

For the year ended December 31, 2018 depreciation and amortization was $0.1 million and $0.3 million for Vapor and Grocery, respectively.

Note 18. SUBSEQUENT EVENTS

The Company evaluated subsequent events through May 13, 2020, the date on which the December 31, 2019 financial statements were originally issued. There are no significant events that require disclosure in these financial statements, except as follows:

Cashless Exercises of Series A Warrants

From January 1, 2020 through May 13, 2020, there were 15 Series A Warrants exercised through the cashless exercise provision of such warrants. As a result, the Company issued 10 billion shares.

Renewal of Credit Line

On April 13, 2018, the Company agreed to a new revolving credit line of $2 million and a money market account of $2 million ("blocked account") with Professional Bank in Coral Gables, Florida. On May 12, 2020, the Company reached agreement with Professional Bank to renew the credit line for one more year, and the next annual review will occur on or before May 13, 2021. The new agreement included a variable interest rate that it is based on a rate of 1.50% over what is earned on the collateral amount. The collateral amount established in the arrangement with the bank is $2 million.

COVID-19 Management Update

In March 2020, the outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus has recently been recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread in the United States, including in the markets in which the Company operates. The COVID-19 outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses, "shelter in place" and other governmental regulations, reduced consumer spending due to both job losses and other effects attributable to the COVID-19, and there are many unknowns. The Company has adjusted certain aspects of the operations to protect their employees and customers while still meeting customers' needs. While to date the Company has not been required to close any of its stores, the Company is currently operating under regular hours and we are expecting COVID-19 to have a long-term beneficial impact to the future financial results of the grocery segment. The Company continues to monitor the impact of the COVID-19 outbreak closely. The extent to which the COVID-19 outbreak will impact our operations is controllable, and there is no imminent risk on business continuity and future operation.

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, on May 13, 2020.

Healthier Choices Management Corp.

By: /s/ *Jeffrey Holman*
Jeffrey Holman
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ *Jeffrey Holman* Jeffrey Holman	Principal Executive Officer and Director	May 13, 2020
/s/ *John A. Ollet* John A. Ollet	Chief Financial Officer (Principal Financial and Accounting Officer)	May 13, 2020
/s/ *Clifford J. Friedman* Clifford J. Friedman	Director	May 13, 2020
/s/ *Anthony Panariello* Anthony Panariello	Director	May 13, 2020

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date	Number	
1.1	Form of Underwriting Agreement	S-1	7/10/15	1.1	
2.1(a)	Business Sale Offer and Acceptance Agreement, dated April 11, 2016, by and between Vapor Corp. and Ada's Whole Food Market LLC	8-K	5/23/16	2.1	
2.1(b)	Asset Purchase Agreement, dated July 29, 2016, by and between Vapor Corp. and VPR Brands, L.P.	8-K	8/3/16	1.1	
2.1(c)	Asset Purchase Agreement, dated November 19, 2018, by and among the Company and Paradise Health Foods, Inc.	8-K	11/21/18	2.1	
2.1(d)	Membership Interest Purchase Agreement, dated December 14, 2018, by and among Healthy U Wholesale, Inc. and the Sellers named therein	8-K	12/26/18	2.2	
3.1	Certificate of Incorporation	10-Q	11/16/15	3.1	
3.1(a)	Certificate of Amendment to Certificate of Incorporation	8-K	3/03/17	3.1	
3.1(b)	Certificate of Amendment to Certificate of Incorporation	S-1	7/10/15	3.2	
3.1(c)	Certificate of Amendment to Certificate of Incorporation	S-4	12/11/15	3.2	
3.1(d)	Certificate of Amendment to Certificate of Incorporation	8-K	2/2/16	3.1	
3.1(e)	Certificate of Amendment to Certificate of Incorporation	8-K	3/9/16	3.1	
3.1(f)	Certificate of Amendment to Certificate of Incorporation	8-K	6/1/16	3.1	
3.1(g)	Certificate of Amendment to Certificate of Incorporation	8-K	8/5/16	3.1	
3.1(h)	Certificate of Designation of Series A Preferred Stock	S-1	7/10/15	3.4	
3.1(i)	Certificate of Correction to the Certificate of Designation of Series A Preferred Stock	8-A12B	7/27/15	3.5	
3.1(j)	Certificate of Designation of Preferences, Rights And Limitations of Series B Convertible Preferred Stock	8-K	8/21/18	3.1	
3.2	Bylaws	8-K	12/31/13	3.4	
4.1	Form of Series A Warrant	S-1	7/10/15	4.2	
4.2	Form of Unit Purchase Agreement	S-1	7/10/15	4.3	
4.3	Form of Warrant Exchange Agreement, dated as of August 16, 2018 by and between Healthier Choices Management Corp. and the holder of Series A Warrants	8-K	8/21/18	10.1	
10.4	Form of Securities Purchase Agreement dated March 3, 2015	8-K	3/05/15	10.1	
10.5	2015 Equity Incentive Plan	S-1	6/01/15	10.28	
10.9	Form of Letter Agreement dated June 19, 2015	8-K	6/25/15	10.4	
10.10	Form of Letter Agreement dated June 19, 2015	8-K	6/25/15	10.5	
10.11	Form of Warrant dated June 22, 2015	8-K	6/25/15	10.6	
10.12	Form of Registration Rights Agreement dated June 22, 2015	8-K	6/25/15	10.7	
10.13	Term Loan Credit Agreement, dated December 31, 2018, by and among Healthy Choice Markets 2, LLC, The Vitamin Store, LLC and Professional Bank	8-K	1/7/19	10.1	
10.14	Term Note, dated December 31, 2019, issued by Healthy Choice Markets 2, LLC, and The Vitamin Store, LLC, in favor of Professional Bank	8-K	1/7/19	10.2	
10.15	Exclusive Distribution Agreement with MJ Holdings Inc. dated July 30, 2018	10-Q	10/30/18	10.5	

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date	Number	
10.17	Form of Fifth Amended and Restated Series A Standstill Agreement	10-K	3/27/17	10.17	
10.18	Executive Service Consulting Agreement, dated April 11, 2016, by and between Gregory Brauser and Vapor Corp.	8-K	4/11/16	10.1	
10.19	Amendment to Vapor Corp. 2015 Equity Incentive Plan	S-8	2/8/17	4.2	
10.20	Form of Restricted Stock Award Agreement	8-K	8/20/18	10.4	
10.21	Amended and Restated Employment Agreement, dated as of March 13, 2018 by and between the Company and Christopher Santi	8-K	8/20/18	10.1	
10.22	Amended and Restated Employment Agreement, dated as of March 13, 2018 by and between the Company and John Ollet	8-K	8/20/18	10.2	
10.23	Amended and Restated Employment Agreement, dated as of March 13, 2018 by and between the Company and Jeffrey Holman	8-K	8/20/18	10.3	
16.1	Letter from Morrison, Brown, Argiz & Farra, LLC, dated April 26, 2017	8-K	4/28/17	16.1	
21.1	List of Subsidiaries				Filed
23.1	Consent of Marcum L.L.P				Filed
31.1	Certification of Principal Executive Officer (302)				Filed
31.2	Certification of Principal Financial Officer (302)				Filed
32.1	Certification of Principal Executive Officer and Principal Financial Officer (906)				Furnished**
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Link base Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Link base Document				Filed
101.LAB	XBRL Taxonomy Extension Label Link base Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Link base Document				Filed

* Management contract or compensatory plan or arrangement.

** This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

Copies of this report (including the financial statements) and any of the exhibits referred to above will be furnished at no cost to our stockholders who make a written request to our Corporate Secretary at 3800 North 28th Way, Hollywood, Florida 33020.

Exhibit 21.1

List of Subsidiaries

Subsidiaries	Jurisdiction
The Vape Store Inc.	Florida
Vaporin, Inc. (inactive)	Delaware
Healthy Choice Markets, Inc.	Florida
Smoke Anywhere USA Inc. (inactive)	Florida
Emagine the Vape Store, LLC (inactive)	Delaware
IVGI Acquisitions, Inc. (inactive)	Delaware
Vapormax Franchising LLC. (inactive)	Delaware
Vaporin, LLC (inactive)	Florida
Healthy Choice Markets 2, LLC	Florida
The Vitamin Store, LLC	Florida

Exhibit 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Healthier Choices Management Corp. on Form S-8 File No. 333-188888 of our report dated May 13, 2020, with respect to our audits of the consolidated financial statements of Healthier Choices Management Corp. as of December 31, 2019 and 2018 and for the years then ended, which report is included in this Annual Report on Form 10-K of Healthier Choices Management Corp. for the year ended December 31, 2019.

/s/ Marcum LLP

Marcum LLP
New York, NY
May 13, 2020

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffrey Holman, certify that:

1. I have reviewed this annual report on Form 10-K of Healthier Choices Management Corp.;

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: May 13, 2020

/s/ Jeffrey Holman

Jeffrey Holman
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, John Ollet, certify that:

1. I have reviewed this annual report on Form 10-K of Healthier Choices Management Corp.;

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: May 13, 2020

/s/ John Ollet

John Ollet
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Healthier Choices Management Corp. (the "Company") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey Holman, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly 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 quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

/s/ Jeffrey Holman
Jeffrey Holman
Chief Executive Officer
(Principal Executive Officer)

In connection with the quarterly report of Healthier Choices Management Corp. (the "Company") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, John Ollet, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly 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 quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

/s/ John Ollet
John Ollet
Chief Financial Officer
(Principal Financial Officer)