



PROGRESSIVE CARE, INC.  
2014 ANNUAL REPORT  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(UNAUDITED)

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*The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited financial statements and notes thereto for the years ended December 31, 2014 and 2013 found in this report along with the published unaudited financial statements and notes thereto for the years ended December 31, 2013 and 2012 and the audited year ended December 31, 2011 as filed in our Annual Report, form 10-K, on April 16, 2012. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as “anticipate,” “believe,” “intends,” “may” or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under “Risk Factors.”*

**FORWARD LOOKING STATEMENTS**

Included in this Consolidated Financial Statements Report are “forward-looking” statements, as well as historical information. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled “Risk Factors.” Forward-looking statements include those that use forward-looking terminology, such as the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “project,” “plan,” “will,” “shall,” “should,” and similar expressions, including when used in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and we cannot assure you that actual results will be consistent with these forward-looking statements. We undertake no obligation to update or revise these forward-looking statements, whether to reflect events or circumstances after the date initially filed or published, to reflect the occurrence of unanticipated events or otherwise.

**BUSINESS OVERVIEW**

The Company through its wholly-owned subsidiary, PharmCo, LLC, is a South Florida provider of prescription pharmaceuticals specializing in health practice risk management, the sale of anti-retroviral medications and related medication therapy management, the sale and rental of durable medical equipment (“DME”) and the supply of prescription medications to long term care facilities. The Company is focused on developing the PharmCo brand and adding business elements that cater to specific under-served markets and demographics. This effort includes community and network based marketing strategies, the introduction of new locations, acquisitions and the strategic collaboration(s) with community, government and charitable organizations.

**Geographic Operations**

PharmCo currently caters to South Florida’s diverse population as its customers reside in Miami-Dade, Broward, St. Lucie, Martin, and Palm Beach Counties. The Company including its subsidiary PharmCo are located in the city of North Miami Beach. In addition to English, different members of the Company’s staff also speak Spanish, Portuguese, Hebrew, Russian, French and Creole.

**Description of the Business**

**Products and Services**



PharmCo provides prescription pharmaceuticals, specializing in anti-retroviral patient care management, compounded medications and durable medical equipment. The Company also provides long term care solutions to skilled nursing facilities (SNFs), assisted living facilities (ALFs), retirement centers and communities, doctors' offices and clinics. The Company offers same day delivery of all its products, both pharmacy and DME.

As a specialty pharmacy catering to the needs of patients in need of anti-retroviral medications, and to increase the quality and credibility of the services we provide to these patients, the Company has added a staff that is well trained in acute illnesses. Further, the Company provides confidential prescription packaging that suits the individual patient's needs and lifestyle.

For its long term care customers, PharmCo provides purchasing, repackaging and dispensing of both prescription and non-prescription pharmaceutical products. PharmCo utilizes a unit-of-dose packaging system as opposed to the traditional vials used for its retail customers. This method of distribution improves control and patient compliance with recommended drug therapy by increasing the timeliness and accuracy of medication dispensing. PharmCo also provides computerized maintenance of patient prescription histories, third party billing and consultant pharmacist services. Its consulting services consist primarily of evaluation of monthly patient drug therapy and monitoring the institution's drug distribution system.

PharmCo is a fully accredited durable medical equipment provider that supplies hospital beds, oxygen supplies, power wheelchairs, scooters, walkers, and other related equipment and accessories in South Florida. PharmCo carries a broad range of equipment and accessories with most special requests honored the same or next day delivery. The Company offers both sales and rentals with size, color, style, and brand options available on the majority of its products. The Company also offers home service and maintenance, defective product replacements and free home installation and instruction.

Pharmco's compounding department specializes in formularies such as non-narcotic topical pain creams, wound care creams, scar gels and hormone replacement therapies. The company also offers EnovaRx, which are FDA approved manufactured pain creams that are readily available with a prescription. In addition to these medications, Pharmco prepares psoriasis creams, wellness vitamins, weight loss formulations and holistic capsules which are 100% Kosher and Halal certified. Compounded medications require strict compliance procedures and are highly labor intensive. As such, these medications can carry significantly higher gross margins than traditional mass manufactured prescriptions. The Company believes that diversifying into this area of the pharmaceutical industry will be greatly beneficial to both its short term financial position as well as its long term viability in the market.

#### ***Distribution Method of Products and Services***

PharmCo sales and marketing efforts are focused primarily on patients with special pharmaceutical needs. Though there is great competition in this market and the landscape of the industry is complicated, the Company believes it can capitalize on providing for unmet needs within this market base. The Company is working with influential members of the community to reach out to this sensitive demographic through event sponsorship and participation, one-on-one meetings, and charitable outreach. Also, the Company is assembling an experienced and dedicated sales team to promote PharmCo's specialty services and establish a loyal customer base. The addition of contracts with healthcare payors like Medicare, Medicaid and other managed care organizations has become an integral component for sales success.

#### ***Status of Any Publicly Announced Planned Products***

The Company currently has no new publicly announced products or services.

#### ***Competitive Business Conditions, Competitive Position and Methods of Competition***



The Company competes with national and independent retail drug stores, supermarkets, convenience stores, mail order prescription providers, discount merchandisers, membership clubs, health clinics, and internet pharmacies. Competition is based on several factors including store location and convenience, customer service and satisfaction, product selection and variety, and price. The Company's competitive advantage lies in providing superior personalized service to the patients and facility operators, selectively adding labor saving and compliance enhancing technologies and carrying inventory to provide rapid delivery of durable medical equipment and all pharmaceutical needs.

We face substantial competition within the pharmaceutical healthcare services industry and in the past year have seen even more consolidation. We expect to see this trend continue in the coming year and it is uncertain what effect, if any, these consolidations will have on us or the industry as a whole. The industry also includes a number of large, well-capitalized companies with nationwide operations and capabilities in the specialty services and PBM services arenas, such as CVS Caremark, Express Scripts, Medco Health Solutions, Walgreens, MedImpact Healthcare Systems and many smaller organizations that typically operate on a local or regional basis. In the Specialty Pharmacy Services segment, we compete with several national and regional specialties pharmaceutical distribution companies that have substantial financial resources and which also provide products and services to the chronically ill such as CVS Caremark, Express Scripts, Medco Health Solutions and Walgreens.

Some of our Specialty Pharmacy Services competitors are under common control with, or are owned by, pharmaceutical wholesalers and distributors or retail pharmacy chains and may be better positioned with respect to the cost-effective distribution of pharmaceuticals. Some of our primary competitors, such as Omnicare and Walgreens, have a substantially larger market share than our existing market share. Moreover, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. However, we do not believe that we compete strictly on the selling price of particular products or services in either business segment; rather, we offer customers the opportunity to receive high quality care.

### ***Suppliers***

We obtain pharmaceutical and other products from manufacturers. We maintained relationships with a primary supplier which accounted for 87% and 65% of pharmaceutical purchases in 2014 and 2013 respectively and several supplementary suppliers. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers, on the whole, are good. The two largest suppliers in 2014 and 2013 accounted for approximately 96% and 85% respectively of our purchases.

### ***Dependence on One or Few Major Customers***

The Company sells to numerous customers including various managed care organizations within both the private and public sectors. Certain healthcare payors account for more than ten percent or more of the Company's consolidated net sales in fiscal 2014 and 2013, the concentrations of which are presented under NOTE 3 "Billing Concentrations". Medicare Part D is a major customer of the Company. However, Medicare Part D functions under several different healthcare payors the concentration of which varies throughout the course of the year. Florida Medicaid was a major payor for the Company accounting for approximately 20% of all billings in 2013. However, like Medicare Part D, Florida Medicaid now functions under several different healthcare payors the concentration of which varies throughout the course of the year. The Company does depend on these health care payors and a loss of one or more would have a major impact on the business.

### ***Patents and Trademarks***

The Company does not currently own, either legally or beneficially, any patents or trademarks.

### ***Need for Governmental Approval of Principal Products or Services***

Government approval is necessary to open any new pharmacy location.

### ***Government contracts***

The Company fills prescriptions for the State of Florida Medicaid public assistance plan. Direct billings to Florida Medicaid were approximately 5% and 20% of total billings in fiscal 2014 and 2013 respectively. During 2014, the Florida Medicaid program transitioned its benefits management to other third party payors, greatly reducing the direct billings to Medicaid for all contracted providers.

### ***Effect of Existing or Probable Governmental Regulation***

As a participant in the healthcare industry our operations and relationships are subject to Federal and state laws and regulations and enforcement by Federal and state governmental agencies. Various Federal and state laws and regulations govern the purchase, dispensing or distribution, and management of prescription drugs and related services we provide and may affect us. We believe that we are in substantial compliance with all legal requirements material to our operations.

We conduct ongoing educational programs to inform employees regarding compliance with relevant laws and regulations and maintain a formal reporting procedure to disclose possible violations of these laws and regulations to the Office of Inspector General (“OIG”) of the U.S. Department of Health and Human Services.

*Professional Licensure.* Pharmacists, pharmacy technicians and certain other health care professionals employed by us are required to be individually licensed or certified under applicable state law. We perform criminal and other background checks on employees and are required under state licensure to ensure that our employees possess all necessary licenses and certifications. We believe that our employees comply in all material respects with applicable licensure laws.

State laws require that each pharmacy location be licensed as an in-state pharmacy to dispense pharmaceuticals in that state. State controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state’s pharmacy licensing authority. Such standards often address the qualification of an applicant’s personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. We believe that our pharmacy’s present and future locations comply with all state licensing laws applicable to these businesses. If our pharmacy location becomes subject to additional licensure requirements, are unable to maintain their required licenses or if states place burdensome restrictions or limitations on pharmacies, our ability to operate in the state would be limited, which could have an adverse impact on our business.

*Other Laws Affecting Pharmacy Operations.* We are subject to Federal and state statutes and regulations governing the operation of pharmacies, repackaging of drug products, wholesale distribution, dispensing of controlled substances, medical waste disposal, and clinical trials. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacy with the DEA and to comply with security, record keeping, inventory control and labeling standards in order to dispense controlled substances.

*Food, Drug and Cosmetic Act.* Certain provisions of the Federal Food, Drug and Cosmetic Act govern the handling and distribution of pharmaceutical products. This law exempts many pharmaceuticals and medical devices from federal labeling and packaging requirements as long as they are not adulterated or misbranded and are dispensed in accordance with, and pursuant to, a valid prescription. We believe that we comply in all material respects with all applicable

requirements.

*Anti-Kickback Laws.* Subject to certain statutory and regulatory exceptions (including exceptions relating to certain managed care, discount, bona fide employment arrangements, group purchasing and personal services arrangements), the Federal “anti-kickback” law prohibits the knowing and willful offer or payment of any remuneration to induce the referral of an individual or the purchase, lease or order (or the arranging for or recommending of the purchase, lease or order) of healthcare items or services paid for in whole or in part by Medicare, Medicaid or other government-funded healthcare programs (including both traditional Medicaid fee-for-service programs as well as Medicaid managed care programs). Violation of the Federal anti-kickback statute could subject us to criminal and/or civil penalties including suspension or exclusion from Medicare and Medicaid programs and other government-funded healthcare programs. A number of states also have enacted anti-kickback laws that sometimes apply not only to state-sponsored healthcare programs but also to items or services that are paid for by private insurance and self-pay patients. State anti-kickback laws can vary considerably in their applicability and scope and sometimes have fewer statutory and regulatory exceptions than federal law. Management carefully considers the importance of such anti-kickback laws when structuring our operations, and believes that we are in compliance therewith.

The Federal anti-kickback law has been interpreted broadly by courts, the OIG and other administrative bodies. Because of the broad scope of those statutes, Federal regulations establish certain safe harbors from liability. Safe harbors exist for certain properly reported discounts received from vendors, certain investment interests held by a person or entity, and certain properly disclosed payments made by vendors to group purchasing organizations, as well as for other transactions or relationships. Nonetheless, a practice that does not fall within a safe harbor is not necessarily unlawful, but may be subject to scrutiny and challenge. In the absence of an applicable exception or safe harbor, a violation of the statute may occur even if only one purpose of a payment arrangement is to induce patient referrals or purchases. Among the practices that have been identified by the OIG as potentially improper under the statute are certain “product conversion” or “switching” programs in which benefits are given by drug manufacturers to pharmacists or physicians for changing a prescription (or recommending or requesting such a change) from one drug to another. Anti-kickback laws have been cited as a partial basis, along with state consumer protection laws discussed below, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with such programs.

*The Stark Laws.* The Federal self-referral law, commonly known as the “Stark Law”, prohibits physicians from referring Medicare patients for “designated health services” (which include, among other things, outpatient prescription drugs, durable medical equipment and supplies and home health services) to an entity with which the physician, or an immediate family member of the physician, has a direct or indirect financial relationship, unless the financial relationship is structured to meet an applicable exception. Possible penalties for violation of the Stark Law include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and program exclusion. Management carefully considers the Stark Law and its accompanying regulations in structuring our relationships with physicians and believes that we are in compliance therewith.

*State Self-Referral Laws.* We are subject to state statutes and regulations that prohibit payments for the referral of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. Some state statutes and regulations apply to services reimbursed by governmental as well as private payors. Violation of these laws may result in prohibition of payment for services rendered, loss of pharmacy or health provider licenses, fines and criminal penalties. The laws and exceptions or safe harbors may vary from the Federal Stark Law and vary significantly from state to state. Certain of these state statutes mirror the Federal Stark Law while others may be more restrictive. The laws are often vague, and in many cases, have not been widely interpreted by courts or regulatory agencies; however, we believe we are in compliance with such laws.

*Statutes Prohibiting False Claims and Fraudulent Billing Activities.* A range of Federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the Federal False Claims Act (the “False Claims Act”), which imposes civil penalties for knowingly making or causing to be made false claims in order to secure a



reimbursement from government-sponsored programs, such as Medicare and Medicaid. Investigations or actions commenced under the False Claims Act may be brought either by the government or by private individuals on behalf of the government, through a “whistleblower” or “qui tam” action. The False Claims Act authorizes the payment of a portion of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. If the government intervenes in the lawsuit and prevails, the whistleblower (or plaintiff filing the initial complaint) may share with the Federal government in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act.

Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines, and treble damages. In recent years, Federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. Under Section 1909 of the Social Security Act, which became effective January 1, 2007, if a state false claim act meets certain requirements as determined by the OIG in consultation with the U.S. Attorney General the state is entitled to an increase of ten percentage points in the state medical assistance percentage with respect to any amounts recovered under a state action brought under such a law. Some of the larger states in terms of population that have had the OIG review such laws include: California, Florida, Illinois, Indiana, Massachusetts, Michigan, Nevada, Tennessee and Texas. We operate in one of these states and submit claims for Medicaid reimbursement to the respective state Medicaid agency. This legislation has led to increased auditing activities by state healthcare regulators. As such, we have been the subject of an increased number of audits. While we believe that we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators would agree with the methodology employed by us in billing for our products and services and a material disagreement between us and these governmental agencies on the manner in which we provide products or services could have a material adverse effect on our business and operations, our financial position and our results of operations.

The False Claims Act also has been used by the Federal government and private whistleblowers to bring enforcement actions under so-called “fraud and abuse” laws like the Federal anti-kickback statute and the Stark Law. Such actions are not based on a contention that an entity has submitted claims that are facially invalid. Instead, such actions are based on the theory that when an entity submits a claim, it either expressly or impliedly certifies that it has provided the underlying services in compliance with applicable laws, and therefore that services provided and billed for during an anti-kickback statute or Stark Law violation result in false claims, even if such claims are billed accurately for appropriate and medically necessary services. The availability of the False Claims Act to enforce alleged fraud and abuse violations has increased the potential for such actions to be brought, and which often are costly and time-consuming to defend.

*Confidentiality, Privacy and HIPAA.* Most of our activities involve the receipt, use and disclosure of confidential medical, pharmacy or other health-related information concerning individual members, including the disclosure of the confidential information to the member’s health benefit plan.

On April 14, 2003, the final regulations issued by United States Department of Health and Human Services (“HHS”), regarding the privacy of individually identifiable health information (the “Privacy Regulations”) pursuant to the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) took effect. The Privacy Regulations are designed to protect the medical information of a healthcare patient or health plan enrollee that could be used to identify the individual.

The requirements imposed by the Privacy Regulations, the Transactions Standards, and the Security Standards are extensive and can require substantial cost and effort to assess and implement. We have taken and will continue to take steps that we believe are reasonable to ensure that our policies and procedures are in compliance with the Privacy Regulations, the Transactions Standards and the Security Standards. The requirements imposed by HIPAA have





increased our burden and costs of regulatory compliance, altered our reporting to Plan Sponsors and reduced the amount of information we can use or disclose if members do not authorize such uses or disclosures.

The healthcare industry is one of the fastest growing industries. In the United States, the provision of healthcare services of any kind is highly competitive. The Company's ability to recruit qualified personnel, attract new institutional and retail clients, expand the reach of its pharmacy operations relies on its ability to quickly adapt to changing societal attitudes, market pressure and government regulation. The Company's business model incorporates leveraging current revenue streams towards aggressive growth strategies.

***Estimate of the Amount Spent on Research and Development***

Research and development expenses were \$0 for each of the years 2014 and 2013, respectively.

***Costs and effects of environmental compliance***

The costs of environmental compliance for the Company are minimal. The Company engages a recycling company for the disposal of all paper products amounting to approximately \$150 per month.

***Employees***

The Company currently employs approximately 29 persons (consisting of 26 full-time employees and 3 part-time employees).

## RISKS RELATING TO OUR BUSINESS

Our business is subject to various industry, economic, regulatory and other risks and uncertainties. In addition to the other information in this report and our other filings with the SEC and OTC Markets, you should carefully consider the risks described below, which could materially and adversely affect our business, financial condition and results of operations. *The following risk factors are not an exhaustive list of the risks **associated with our business**. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.*

***We have a history of losses and may not be able to sustain profitability.***

We may incur operating losses for the foreseeable future. For the years ended December 31, 2014 and December 31, 2013 we had net sales of \$11,268,803 and \$9,333,141, respectively. For the years ended December 31, 2014 and December 31, 2013, we had net losses of \$1,009,185 and \$585,417, respectively. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business.

***We derive a significant portion of our sales from prescription drug sales reimbursed by pharmacy benefit management companies.***

We derive a significant portion of our sales from prescription drug sales reimbursed through prescription drug plans administered by pharmacy benefit management (“PBM”) companies. PBM companies typically administer multiple prescription drug plans that expire at various times and provide for varying reimbursement rates. There can be no assurance that we will continue to participate in any particular pharmacy benefit manager network in any particular future time period. If our participation in the prescription drug programs administered by one or more of the large PBM companies is restricted or terminated, we expect that our sales would be adversely affected, at least in the short-term. If we are unable to replace any such lost sales, either through an increase in other sales or through a resumption of participation in those plans, our operating results may be materially adversely affected. When we exit a pharmacy provider network and later resume network participation, there can be no assurance that we will achieve any particular level of business on any particular pace. In addition, in such circumstances we may incur increased marketing and other costs in connection with initiatives to regain former patients and attract new patients covered by in-network plans. When we exit a pharmacy provider network and later resume network participation, there also can be no assurance that all clients of the PBM sponsor of the network will choose to include us again in their pharmacy network initially or at all.

***Efforts to reduce reimbursement levels and alter health care financing practices could adversely affect our businesses.***

The continued efforts of health maintenance organizations, managed care organizations, other companies, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs), has resulted in pressure to decrease reimbursement payments to retail and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. In addition, during the past several years, the U.S. health care industry has been subject to an increase in governmental regulation at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are underway at the federal and state government levels. Changing political, economic and regulatory influences may affect health care financing and reimbursement practices. If the current health care financing and reimbursement system changes significantly, the combined company’s business, financial position and results of operations could be materially adversely affected.

***The frequency and rate of the introduction of new prescription drugs as well as generic alternatives to brand name prescription products.***

The profitability of retail pharmacy businesses is dependent upon the utilization of prescription drug products. Utilization trends are affected by the introduction of new and successful prescription pharmaceuticals as well as lower priced generic alternatives to existing brand name products. Accordingly, a slowdown in the introduction of new and successful prescription pharmaceuticals and/or generic alternatives (the sale of which normally yield higher gross profit margins than brand name equivalents) could adversely affect our business, financial position and results of operations.

***Declining gross margins in the PBM industry.***

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, enhanced service offerings and/or higher service levels. In that regard, our Company maintains contractual relationships with generic pharmaceutical distributors that provide for purchase discounts and/or rebates on drugs. Manufacturer rebates often depend on a variety of criteria and cannot be relied upon for greater margins. Competitive pressures in the industry may cause us to share with clients a larger portion of rebates and/or discounts received. In addition, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical suppliers and manufacturers could also reduce the discounts or rebates we receive. Accordingly, margin pressure in the industry resulting from these trends could adversely affect our business, financial position and results of operations.

***Uncertainty regarding the impact of Medicare Part D may adversely affect our business, financial position and our results of operations.***

Since its inception in 2006, the Medicare Drug Benefit has resulted in increased utilization and decreased pharmacy gross margin rates as higher margin business, such as cash and state Medicaid customers, migrated to Medicare Part D coverage. Further, as a result of the Medicare Drug Benefit, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of the Medicare Drug Benefit may outweigh any opportunities for new business generated by the new benefit. In addition, if the cost and complexity of the Medicare Drug Benefit exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Drug Benefit and retiree drug subsidy purposes are implemented in a manner that impacts the profitability of our Medicare Part D business; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of the Medicare Drug Benefit or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under the Medicare Drug Benefit's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be materially and adversely affected, and our business, financial position and results of operations may be adversely affected.

***Changes in industry pricing benchmarks could adversely affect our business, financial position and results of operations.***

Contracts in the prescription drug industry generally use certain published benchmarks to establish pricing for prescription drugs. These benchmarks include average wholesale price ("AWP"), average sales price ("ASP") and wholesale acquisition cost ("WAC").

Recent events, including the proposed FDB and Medi-Span settlements described in the Government Regulation of Health Care Matters section, have raised uncertainties as to whether payors, pharmacy providers, PBMs and others in the prescription drug industry will continue to utilize AWP as it has previously been calculated or whether other pricing benchmarks will be adopted for establishing prices within the industry.

Changes in reporting of AWP, or in the basis for calculating reimbursement proposed by the federal government and certain states, and other legislative or regulatory adjustments that may be made regarding the reimbursement of

payments for drugs by Medicaid and Medicare, could impact our pricing to customers and other payors and could impact our ability to negotiate rebates and/or discounts with manufacturers, wholesalers, PBMs or retail pharmacies. In some circumstances, such changes could also impact the reimbursement that we receive from Medicare or Medicaid programs for drugs covered by such programs and from MCOs that contract with government health programs to provide prescription drug benefits. In addition, it is possible that payors, pharmacy providers and PBMs will begin to evaluate other pricing benchmarks as the basis for contracting for prescription drugs and PBM services in the future, and the effect of this development on the business of the Company cannot be predicted at this time.

***The industries in which we operate are extremely competitive and competition could adversely affect our business, financial position and results of operations.***

We operate in a highly competitive environment. As a pharmacy retailer, we compete with other drugstore chains, supermarkets, discount retailers, membership clubs, Internet companies and retail health clinics, as well as other mail order pharmacies. In that regard, many pharmacy benefit plans have implemented plan designs that mandate or provide incentives to fill maintenance medications through mail order pharmacies. To the extent this trend continues, our retail pharmacy business could be adversely affected. In addition, some of these competitors may offer services and pricing terms that we may not be willing or able to offer. Competition may also come from other sources in the future. As a result, competition could have an adverse effect on our business, financial position and results of operations.

Competitors in the PBM industry include large national PBM companies, such as Medco Health Solutions, Inc. and Express Scripts, Inc., as well as many local or regional PBMs. In addition, there are several large health insurers and managed care plans (e.g., United Healthcare, Wellpoint, Aetna, CIGNA) and retail pharmacies (e.g., Walgreens & CVS) which have their own PBM capabilities as well as several other national and regional companies that provide some or all of the same services. Some of these competitors may offer services and pricing terms that we, even if the anticipated benefits of our merger are realized in full, may not be able to offer. In addition, competition may also come from other sources in the future. As a result, competition could have an adverse effect on our business, financial position and results of operations.

***Existing and new government legislative and regulatory action could adversely affect our business, financial position and results of operations.***

The PBM business and retail drugstore business are subject to numerous federal, state and local laws and regulations. Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; suspension of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation of Health Care Matters section; accounting standards; tax laws and regulations; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances; and regulations of the FDA, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell. In that regard, our business, financial position and results of operations could be affected by one or more of the following:

- federal and state laws and regulations governing the purchase, distribution, management, dispensing and reimbursement of prescription drugs and related services, whether at retail or mail, and applicable licensing requirements;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;
- the frequency and rate of approvals by the FDA of new brand named and generic drugs, or of over-the-counter status for brand name drugs;

- FDA regulation affecting the retail or PBM industry;
- rules and regulations issued pursuant to the HIPAA; and other federal and state laws affecting the use, disclosure and transmission of health information, such as state security breach laws and state laws limiting the use and disclosure of prescriber information;
- administration of the Medicare Drug Benefit, including legislative changes and/or CMS rulemaking and interpretation;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access (any willing provider) legislation on ability to manage pharmacy networks;
- managed care reform and plan design legislation;
- insurance licensing and other insurance regulatory requirements applicable to offering Prescription Drug Providers (“PDP”) in connection with the Medicare Drug Benefit;
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies; and
- Federal government sequestration affecting Medicare Part B reimbursements.

***Changes in the health care regulatory environment may adversely affect our business.***

Future rulemaking could increase regulation of pharmacy services, result in changes to pharmacy reimbursement rates, and otherwise change the way we do business. We cannot predict the timing or impact of any future rulemaking, but any such rulemaking could have an adverse impact on our results of operations.

The sustainability of our current business model is also dependent on the availability, pricing and rules and regulations relating to the dispensing of controlled medications. Changes that affect any of these variables could greatly impact our current revenue streams as well as alter our business structure and future plans for growth and development.

***Efforts to reform the U.S. health care system may adversely affect our financial performance.***

Congress periodically considers proposals to reform the U.S. health care system. These proposals may increase government involvement in health care and regulation of PBM or pharmacy services, or otherwise change the way the combined company or its clients do business. Health plan sponsors may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that the combined company would provide. The Company cannot predict what effect, if any, these proposals may have on its retail and pharmacy services businesses. Other legislative or market-driven changes in the health care system that the Company cannot anticipate could also materially adversely affect the combined company’s consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

***If we are found to be in violation of Medicaid and Medicare reimbursement regulations, we could become subject to retroactive adjustments and recoupment, or exclusion from the Medicaid and Medicare programs.***

As a Medicaid and Medicare provider, we are subject to retroactive adjustments due to prior-year audits, reviews and investigations, government fraud and abuse initiatives, and other similar actions. Federal regulations provide for withholding payments to recoup amounts payable under the programs and, in certain circumstances, allow for exclusion from Medicaid and Medicare. While we believe we are in material compliance with applicable Medicaid and Medicare reimbursement regulations, there can be no assurance that we, pursuant to such audits, reviews, investigations, or other proceedings, will be found to be in compliance in all respects with such reimbursement regulations. A determination that we are in violation of any such reimbursement regulations could result in retroactive adjustments and recoupment of payments and have a material adverse effect on our financial condition and results of operations. As a Medicaid and Medicare provider, we are also subject to routine, unscheduled audits that could have a material adverse impact on our results of operations, should an audit result in a negative finding, and we can offer no assurance that future Medicaid and Medicare audits will not result in a negative finding.

***Our industry is subject to extensive government regulation, and noncompliance by us or our suppliers could harm our business.***

The repackaging, marketing, sale, and purchase of medications are extensively regulated by federal and state governments. As a provider of pharmacy services, our operations are subject to complex and evolving federal and state laws and regulations enforced by federal and state governmental agencies, including, but not limited to, the federal Controlled Substances Act, the False Claims Act, federal and state Anti-Kickback laws, HIPAA, the Stark Law, the federal Civil Monetary Penalty Law, the PDMA, the Food, Drug and Cosmetic Act and various other state pharmacy laws and regulations. In addition, many of the HIV/AIDS medications that we sell receive greater attention from law enforcement officials than those medications that are most often dispensed by traditional pharmacies due to the high cost of HIV/AIDS medications and the potential for illegal use. If we fail to, or are accused of failing to, comply with applicable laws and regulations, we could be subject to penalties that may include exclusion from the Medicare or Medicaid programs, fines, requirements to change our practices, and civil or criminal penalties, which could harm our business, financial condition, and results of operations. Any disqualification from participating in Medicare or the state Medicaid programs would significantly reduce our net sales and our ability to maintain profitability. Our business could also be harmed if the entities with which we contract or have business relationships, such as pharmaceutical manufacturers, distributors, physicians, HIV/AIDS clinics, or home health agencies are accused of violating laws or regulations.

While we believe we are operating our business in substantial compliance with existing legal requirements material to the operation of our business, there are significant uncertainties involving the application of many of these legal requirements to our business. Changes in interpretation or enforcement policies could subject our current practices to allegation of impropriety or illegality. The applicable regulatory framework is complex and evolving, and the laws are very broad in scope. Many of the laws remain open to interpretation and have not been addressed by substantive court decisions to clarify their meaning. We are also unable to predict what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the healthcare industry in general, or what effect any such legislation or regulation might have on us. Further, we cannot provide any assurance that federal or state governments will not impose additional restrictions or adopt interpretations of existing laws that could increase our cost of compliance with such laws or reduce our ability to remain profitable.

Federal and state investigations and enforcement actions continue to focus on the healthcare industry, scrutinizing a wide range of items such as referral and billing practices, product discount arrangements, dissemination of confidential patient information, clinical drug research trials, pharmaceutical marketing programs, and gifts for patients. It is difficult to predict how any of the laws implicated in these investigations and enforcement actions may be interpreted to apply to our business. Any future investigation may cause publicity, regardless of the eventual result of the investigation, or its underlying merits, that would cause potential patients to avoid us, reducing our net sales and profits and causing our stock price to decline.

The health of the economy in general and in the markets we serve could adversely affect our business and our financial results. Our business is affected by the economy in general, including changes in consumer purchasing power, preferences and/or spending patterns. These changes could affect drug utilization trends as well as the financial health and number of covered lives of our clients, resulting in an adverse effect on our business and financial results.

In that regard, the current economic recovery has resulted in strengthened drug utilization trends during 2012. It is possible that the state of the economy could change and current trends could reverse in the future. A reverse of these trends will cause a decline in drug utilization, and dampen demand for pharmaceutical drugs and durable medical equipment as well as consumer demand for sundry products sold in our retail store. If this were to occur, our business and financial results could be adversely affected.

Further, interest rate fluctuations and changes in capital market conditions may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale or lease transactions under acceptable terms.



***If the merchandise and services that we offer fail to meet customer needs, our sales may be affected.***

Our success depends on our ability to offer a superior shopping experience, a quality assortment of available merchandise and superior customer service. We must identify, obtain supplies of, and offer to our customers, attractive, innovative and high-quality merchandise on a continuous basis. Our products and services must satisfy the needs and desires of our customers, whose preferences may change in the future. If we misjudge either the demand for products and services we sell or our customers' purchasing habits and tastes, we may be faced with excess inventories of some products and missed opportunities for products and services we chose not to offer. In addition, our sales may decline or we may be required to sell the merchandise we have obtained at lower prices. This would have a negative effect on our business and results of operations.

***Our ability to grow our business may be constrained by our inability to find suitable new store locations at acceptable prices.***

Our ability to grow our business may be constrained if suitable new store locations cannot be identified with lease terms or purchase prices that are acceptable to us. We compete with other retailers and businesses for suitable locations for our stores. Local land use and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations and influence the cost of constructing our stores. The expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. Further, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores.

***Our ability to grow our business may be constrained by our inability to obtain adequate permits and licensing for new locations.***

Our ability to grow our business may be constrained if new locations are not permitted and licensed to conduct ordinary operations. Expansion initiatives can be delayed or even canceled due to a failure to acquire certain government agency approvals. Such delay or cancellation will have a negative impact on our business and results of operations.

Should a product liability issue, recall or personal injury issue arise, inadequate product or other liability insurance coverage or our inability to maintain such insurance may result in a material adverse effect on our business and financial condition. Products that we sell could become subject to contamination, product tampering, mislabeling, recall or other damage. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury. Product liability or personal injury claims may be asserted against us with respect to any of the products or pharmaceuticals we sell or services we provide.

***If we are not able to market our services effectively to clinics, their affiliated healthcare providers and PDPs, we may not be able to grow our patient base as rapidly as we have anticipated.***

Our success depends, in part, on our ability to develop and maintain relationships with clinics and their affiliated healthcare providers because each is an important patient referral source for our business. In addition, we also have to maintain and continue to establish relationships with Prescription Drug Providers ("PDPs") so we can continue to fill prescriptions for our dual eligible customers who receive prescription drug coverage under Medicare Part D. If we are unable to market our services effectively to these clinics, healthcare providers and PDPs, or if our existing relationships with clinics and providers are terminated, our ability to grow our patient base will be harmed, which could significantly reduce our net sales and our ability to maintain profitability. Additionally, Medicare Part D regulations that strictly limit our ability to market to our current and new patients may limit our ability to maintain and grow our current patient base.

***If we fail to manage our growth or implement changes to our reporting systems effectively, our business could be harmed.***



If we are unable to manage our growth effectively, we could incur losses. How we manage our growth will depend, among other things, on our ability to adapt our operational, financial and management controls, reporting systems and procedures to the demands of a larger business, including the demands of integrating our acquisitions. To manage the growth and increasing complexity of our business, we may make modifications to or replace computer and other reporting systems, including those that report on our financial results and on which we are substantially dependent. We may incur significant financial and resource costs as a result of any such modifications or replacements, and our business may be subject to transitional difficulties. The difficulties associated with any such implementation, and any failure or delay in the system implementation, could negatively affect our internal control over financial reporting and harm our business and results of operations. In addition, we may not be able to successfully hire, train and manage additional sales, marketing, customer support and pharmacists quickly enough to support our growth. To provide this support, we may need to open additional offices, which will result in additional burdens on our systems and resources and require additional capital expenditures.

***Our success in identifying and integrating synergistic acquisitions may impact our business and our ability to have effective disclosure controls.***

As part of our strategy, we continually evaluate acquisition opportunities. There can be no assurance that we will complete any future acquisitions or that such transactions, if completed, will be integrated successfully or will contribute favorably to our operations and financial condition. The integration of acquisitions includes ensuring that our disclosure controls and procedures and our internal control over financial reporting effectively apply to and address the operations of newly acquired businesses. We may be required to change our disclosure controls and procedures or our internal control over financial reporting to accommodate newly acquired operations, and we may also be required to remediate historic weaknesses or deficiencies at acquired businesses.

In addition, acquisitions may expose us to unknown or contingent liabilities of the acquired businesses, including liabilities for failure to comply with healthcare or reimbursement laws. While we try to negotiate indemnification provisions that we consider to be appropriate for the acquisitions, there can be no assurance that liabilities relating to the prior operations of acquired companies will not have a material adverse effect on our business, financial condition and results of operations. Furthermore, future acquisitions may result in dilutive issuances of equity securities, incurrence of additional debt, and amortization of expenses related to intangible assets, any of which could have a material adverse effect on our business, financial condition and results of operations.

***A disruption in our telephone system or our computer system could harm our business.***

We receive and take most prescription orders over the telephone and by facsimile. We also rely extensively upon our computer system to confirm payor information, patient eligibility and authorizations; to check on medication interactions and patient medication history; to facilitate filling and labeling prescriptions for delivery and billing; and to help with the collection of payments. Our success depends, in part, upon our ability to promptly fill and deliver complex prescription orders as well as on our ability to provide reimbursement management services for our patients and their healthcare providers. Any continuing disruption in our telephone, facsimile or computer systems could adversely affect our ability to receive and process prescription orders, make deliveries on a timely basis and receive reimbursement from our payors. This could adversely affect our relations with the patients and healthcare providers we serve and potentially result in a partial reduction in orders from, or a complete loss of, these patients.

***We may fail to retain or recruit necessary personnel, and we may be unable to secure the services of consultants.***

As of December 31, 2014, we employed 24 persons. We have also engaged consultants to advise us on various aspects of our business. Our future performance will depend in part on our ability to successfully integrate newly hired executive officers into our management team and our ability to develop an effective working relationship among senior management.

## RISKS RELATED TO THE SPECIALTY PHARMACY INDUSTRY

***There is substantial competition in our industry, and we may not be able to compete successfully.***

The specialty pharmacy industry is highly competitive and is continuing to become more competitive. All of the medications, supplies and services that we provide are also available from our competitors. Our current and potential competitors may include:

- Other specialty pharmacy distributors;
- Specialty pharmacy divisions of wholesale drug distributors;
- Not for profit organizations with specialty pharmacies;
- Hospital-based pharmacies;
- Local infusion providers;
- Other retail pharmacies;
- Manufacturers that sell their products both to distributors and directly to clinics and physicians' offices; and
- Hospital-based care centers and other alternate-site healthcare providers.

Many specialty patients are currently receiving prescription benefits from non-profit plans such as Ryan White. These payors only use non-profit providers to dispense medications to their enrollees. Should there be any changes in the environment in the specialty industry that lead more patients to non-profit payor organizations or the services of non-profit pharmacies become more attractive, the company may not be able to compete successfully.

Many of our competitors have substantially greater resources and marketing staffs and more established operations and infrastructure than we have. A significant factor in effective competition will be our ability to maintain and expand our relationships with patients, healthcare providers and government and private payors.

***If demand for our products and services is reduced, our business and ability to grow would be harmed.***

A reduction in demand for HIV/AIDS medications would significantly harm our business, as we would not be able to quickly shift our business to provide medications for other diseases or disorders. Reduced demand for our products and services could be caused by a number of circumstances, such as:

- A cure or vaccine for HIV/AIDS;
- The emergence of a new strain of HIV that is resistant to available HIV/AIDS medications;
- Shifts to treatment regimens other than those we offer;
- New methods of delivery of existing HIV/AIDS medications or of injectable or infusible medications that do not require our specialty pharmacy and disease management services;
- Recalls of the medications we sell;

- Adverse reactions caused by the medications we sell;
- The expiration of or challenge to the drug patents on the medications we sell; or
- Competing treatment from a new HIV/AIDS medication or from a new injectable or infusible medication or a new use of an existing HIV/AIDS, injectable, or infusible medication.

***Our revenues could be adversely affected if new drugs or combination therapies are developed and prescribed to our patients that have a reimbursement rate less than that of the current drug therapies our patients receive.***

If our patients switch medications to those with lower reimbursement rates or to combination therapies, which combine multiple HIV drugs into a single medication, our net sales could decline. Combination therapies reduce the number of total prescriptions received by our patients, resulting in reduced average revenues and a decrease in dispensing fees per patient.

***We rely on a limited number of suppliers for the prescriptions dispensed by our pharmacies, and we could have difficulty obtaining sufficient supply of the drugs to fill those prescriptions.***

A limited number of manufacturers operating under current Good Manufacturing Practices are capable of manufacturing the drugs dispensed by our pharmacies, and the supply of those drugs is limited by allocations from the manufacturers. Although we believe we have sufficient supply from such manufacturers and we maintain inventory on hand to meet our demand, if our suppliers had problems or delays with their manufacturing operations we may have difficulty obtaining sufficient quantities of the drugs required for our business. If we do not receive sufficient quantities from our current suppliers, we may be unable to identify or obtain our required drugs from alternative manufacturers on commercially reasonable terms or on a timely basis, which would negatively impact our revenues, reputation and business strategy.

***If our credit terms with vendors become unfavorable or our relationship with them is terminated, our business could be adversely affected.***

We depend on existing credit terms from vendors to meet our working capital needs between the times we purchased medications from vendors and when we received reimbursement or payment from third-party payors. Our ability to grow has been limited in part by our inability to negotiate favorable credit terms from our suppliers. If our position changes and we are unable to maintain adequate credit terms or sufficient financing from third-party lenders, we may become limited in our ability to continue to increase the volume of medications we need to fill prescriptions.

There are only a few wholesale distributors from which we can purchase the medications we offer to HIV/AIDS patients. In the event that any of our vendor agreements terminate or are not renewed, we might not be able to enter into a new agreement with another wholesale distributor on a timely basis or on terms favorable to us. Our inability to enter into a new supply agreement may cause a shortage of the supply of medications we keep in stock, or we may be required to accept pricing and credit terms from a vendor that are less favorable to us than those we currently have.

## **RISKS RELATED TO THE DURABLE MEDICAL EQUIPMENT INDUSTRY**

***Our Failure to Maintain Required Licenses Could Impact Our Operations.***

We are required to maintain a significant number of state and/or federal licenses for our operations and facilities. Certain employees—primarily those with clinical expertise in pharmacy, nursing, respiratory therapy and nutrition—are required to maintain licenses in the states in which they practice. We manage the facility licensing function centrally. In addition, individual clinical employees are responsible for obtaining, maintaining and renewing their professional licenses and we also have processes in place designed to notify branch or pharmacy managers of renewal dates for the

clinical employees under their supervision. State and federal licensing requirements are complex and often open to subjective interpretation by various regulatory agencies. Accurate licensure is also a critical threshold issue for the Medicare competitive bidding program. From time to time, we may also become subject to new or different licensing requirements due to legislative or regulatory requirements developments or changes in our business, and such developments may cause us to make further changes in our business, the results of which may be material. Although we believe we have appropriate systems in place to monitor licensure, violations of licensing requirements may occur and our failure to acquire or maintain appropriate licensure for our operations, facilities and clinicians could result in interruptions in our operations, refunds to state and/or federal payors, sanctions or fines or the inability to serve Medicare beneficiaries in competitive bidding markets which could have an adverse material impact on our business, financial condition, results of operation, cash flow, capital resources and liquidity.

#### **Our Failure to Maintain Accreditation Could Impact Our Operations.**

Accreditation is required by most of our managed care payors and became a mandatory requirement for all Medicare DMEPOS providers effective October 1, 2009. If we lose accreditation, or if any of our new branches are unable to become accredited, our failure to maintain accreditation or become accredited could have a material adverse effect on our business, financial condition, results of operations, cash flow, capital resources and liquidity.

#### ***Our Failure to Establish and Maintain Relationships With Hospital and Physician Referral Sources May Cause Our Revenue to Decline.***

Our success is significantly dependent on referrals from hospital and physician sources. If we are unable to successfully establish new referral sources and maintain strong relationships with our current referral sources, or if efforts to increase the skill level and effectiveness of our sales force fail, our revenues may decline.

#### ***Changes in Medical Equipment Technology and Development of New Treatments May Cause Our Current Equipment or Services to Become Obsolete.***

We evaluate changes in home medical equipment technology and treatments on an ongoing basis for purposes of determining the feasibility of replacing or supplementing items currently included in the patient service equipment inventory and services that we offer our customers. The selection of medical equipment and services we offer is formulated on the basis of a variety of factors, including overall quality, functional reliability, availability of supply, payor reimbursement policies, product features, labor costs associated with the technology, acquisition, repair and ownership costs and overall patient and referral source demand, as well as patient therapeutic and lifestyle benefits.

Manufacturers continue to invest in research and development to introduce new products to the marketplace. It is possible that major changes in available technology, payor benefit or coverage policies related to those changes, or the preferences of patients and referral sources may cause our current product offerings to become less competitive or obsolete, and it will be necessary for us to adapt to those changes. Unanticipated changes could cause us to incur increased capital expenditures and accelerated equipment write-offs, and could force us to alter our sales, operations and marketing strategies.

#### ***There are a number of additional business risks which could adversely affect our financial results.***

Many other factors could adversely affect our financial results, including:

- If we are unsuccessful in establishing effective advertising, marketing and promotional programs, our sales or sales margins could be negatively affected.
- Our success depends on our continued ability to attract and retain store, management and other professional personnel, and the loss of key personnel could have an adverse effect on the results of our operations, financial condition or cash flow.

- We may not be able to successfully and timely implement new computer systems and technology or business processes, or may experience disruptions or delays to the computer systems we depend on to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes, which could adversely impact our operations and our ability to attract and retain customers.
- Severe weather conditions, terrorist activities, health epidemics or pandemics or the prospect of these events can impact our store operations or damage our facilities in affected areas or have an adverse impact on consumer confidence levels and spending in our store.
- The long-term effects of climate change on general economic conditions and the pharmacy industry in particular are unclear, and changes in the supply, demand or available sources of energy may affect the availability or cost of goods and services, including natural resources, necessary to run our business.
- The products we sell are sourced from a wide variety of domestic and international vendors, and any future inability to find qualified vendors and access products in a timely and efficient manner could adversely impact our business.

The foregoing is not a comprehensive listing and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements.”

## **RISKS RELATING TO OUR STOCK**

***We will seek to raise additional funds in the future, which may be dilutive to stockholders or impose operational restrictions.***

We expect to seek to raise additional capital in the future to help fund development of our proposed expansion. If we raise additional capital through the issuance of equity or convertible debt securities, the percentage ownership of our current stockholders will be reduced. We may also enter into strategic transactions and/or compensate consultants or settle outstanding payables using equity that may be dilutive. Our stockholders may experience additional dilution in net book value per share and any additional equity securities may have rights, preferences and privileges senior to those of the holders of our common stock. If we cannot raise additional funds, we will have to delay development activities of our expansion plans.

On August 22, 2014 the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005.16 in past due debt which includes debts payable to AmerisourceBergen, TCA, individual note holders, related parties and assorted past due amounts for accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company’s debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. The settlement of such debt is pending a proposed 3(a)(10) Transaction, which received judicial approval on September 3, 2014 pursuant to a complaint filed with the Circuit Court of the Second Judicial Circuit in Leon County, Florida on June 24, 2014. There is no guarantee at this time that the 3(a)(10) transaction will be successful in alleviating the Company’s debt. The execution of this Transaction is expected to be dilutive to current shareholders.

***We are controlled by our current officers, directors, and principal stockholders.***

Currently, our directors, executive officers, and principal stockholders beneficially own a majority of our common stock. As a result, they will be able to exert substantial influence over the election of our board of directors and the vote on issues submitted to our stockholders. As of the date of this filing, our officers, directors and principal stockholders beneficially owned 23,169,647 shares (49.81%) of our common stock, which number excludes shares of common stock issuable upon pursuant to certain employment and consulting agreements held by our officers, directors and principal stockholders. Due to the fact that our common stock is “thinly traded”, the sale of these shares by our officers, directors and/or principal stockholders could have a severely adverse effect on the market for our common stock and

our share price.

***Our shares of common stock are thinly traded, so stockholders may be unable to sell at or near ask prices or at all if they need to sell shares to raise money or otherwise desire to liquidate their shares.***

Our common stock is “thinly-traded,” meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stockbrokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or nonexistent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give stockholders any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

***We are subject to the penny stock rules which will make our securities more difficult to sell.***

We are subject to the SEC’s “penny stock” rules because our securities sell below \$5.00 per share. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson, and monthly account statements showing the market value of each penny stock held in the customer’s account. In addition, the bid and offer quotations, and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer’s confirmation.

Furthermore, the penny stock rules require that prior to a transaction, the broker dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. The penny stock rules are burdensome and may reduce purchases of any offerings and reduce the trading activity for our securities. As long as our securities are subject to the penny stock rules, the holders of such securities will find it more difficult to sell their securities.

***Our compliance with the Sarbanes-Oxley Act and SEC rules concerning internal controls may be time consuming, difficult and costly.***

Although individual members of our management team have experience as officers of publicly traded companies, much of that experience came prior to the adoption of the Sarbanes-Oxley Act of 2002. It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by Sarbanes-Oxley. We may need to hire additional financial reporting, internal controls and other finance staff in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with Sarbanes-Oxley’s internal controls requirements, we may not be able to obtain the independent accountant certifications that Sarbanes-Oxley Act requires publicly-traded companies to obtain.

***We cannot assure you that the common stock will be liquid or that it will remain listed on a securities exchange.***

We cannot assure you that we will be able to maintain the listing standards of the OTC-PINK or any other national market. If we are delisted from the OTC-PINK then our common stock will not trade. In addition, delisting of our common stock could further depress our stock price, substantially limit liquidity of our common stock and materially adversely affect our ability to raise capital on terms acceptable to us, or at all. Delisting could also have other negative results, including the



potential loss of confidence by suppliers and employees, the loss of institutional investor interest and fewer business development opportunities.

***We have never paid dividends.***

We have never paid cash dividends on our common stock and do not anticipate paying any for the foreseeable future.



## LEGAL PROCEEDINGS

On July 26, 2013, the Company was named as a respondent to a complaint issued by AmerisourceBergen Drug Corporation. The complaint was filed in Pennsylvania and alleges among other things a failure by PharmCo, LLC to pay for prescription drugs furnished to PharmCo, LLC pursuant to a credit agreement dated April 18, 2011. On October 13, 2013 the Company filed a statement of answer responding to the allegations. The Company believes among other things that AmerisourceBergen instituted overly restrictive purchasing policies that impacted the Company's ability to service its patients and such policy is not present in the cited credit agreement. On August 21, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction.

The Company has accrued the full value of invoices due to AmerisourceBergen plus legal. The total value of outstanding AmerisourceBergen invoices is approximately \$227,000 and is included on the consolidated balance sheets under notes-payable other as result of the 3(a)(10) transaction settlement.

On November 18, 2013, TCA Global Credit Master Fund, L.P. ("TCA") filed a complaint against the Company and PharmCo in the United States District Court for the Southern District of Florida. The complaint alleges, among other things, that the Company is in default of that certain First Amendment to Certain Agreements effective as of June 4, 2013 by and between the Company and TCA and that certain Replacement, Amended and Restated Promissory Note issued by the Company in favor of TCA. In addition, the Complaint alleges that PharmCo is in breach of that certain Acknowledgement and Affirmation of Guaranty Agreement by and between PharmCo and TCA. TCA sought to recover \$687,176 plus interest, costs, attorneys and to foreclose on the assets pledged by the Company and PharmCo in connection with the transaction.

On April 8, 2014, The United States District Court for the Southern District of Florida dismissed the case without prejudice. On May 23, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction, which reduced the outstanding debt to \$575,000. The Company believes it has recorded the full value of debt due to TCA on the consolidated balance sheets under notes payable.

On August 22, 2014 the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005.16 in past due debt which includes debts payable to AmerisourceBergen, TCA, individual note holders, related parties and assorted past due amounts for accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company's debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. The settlement of such debt is pending a proposed 3(a)(10) Transaction, which received judicial approval on September 3, 2014 pursuant to a complaint filed with the Circuit Court of the Second Judicial Circuit in Leon County, Florida on June 24, 2014. There is no guarantee at this time that the 3(a)(10) transaction will be successful in alleviating the company's debt.

On October 1, December 2, and December 22, 2014, 13,806,000 shares of the Company's common stock were issued to Tarpon Bay as part of the 3(a)(10) transaction. Prior to year end 8,362,000 shares had been liquidated by Tarpon with payments being made to the original debts, satisfaction towards the payment of the debt acquisition costs and their fees. Subsequent to year end there were an additional 12,031,000 shares issued to Tarpon for satisfaction towards the agreement.

During the period October 1, 2014 through December 31, 2014, Tarpon Bay liquidated 8,362,000 share of the 13,806,000 share issued to them as part the Section 3(a)(10) Transaction. They received a total of \$20,422.19 from the sale of the shares with the proceeds being utilized as follows as satisfaction of the transaction, 1) \$12,000 dispersed to creditors, \$4,422.19 as success fee against the debt acquisition costs and \$4, 000 to Tarpon Bay as transaction fees. Subsequent to year end Tarpon liquidated an addition 29,669,000 share for a total consideration of \$558,355.82 which was dispersed as follows: \$198,990.35 available to be disbursed to creditors, \$66,330.12 for Tarpon's transaction fees and \$95,557.81 which is the remainder of the \$100,000 Debt Acquisition Costs. The \$197,477.54 is awaiting dispersal.

Management believes that obligations recorded on its consolidated balance sheets at December 31, 2014 and December 31, 2013 were adequate based on its assessment of the ongoing complaints.

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



## MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES.

### *(a) Market Information*

Our common stock trades on the OTC-PINKSHEETS under the symbol "RXMD" since April 12, 2011. Prior to this, our common stock traded under the symbol "PRTR" on the OTC Bulletin Board since 11/21/2008. The following table states the range of the high and low trading prices per share of our common stock for each of the calendar quarters during the last two calendar years. These quotations represent inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. The last price of our common stock as reported on the OTC-PINKSHEETS on December 31, 2014 was \$0.003 per share.

	<b>High</b>	<b>Low</b>
<b>YEAR ENDED DECEMBER 31, 2014</b>		
Fourth quarter	*\$ 0.00	\$ 0.00
Third quarter	\$ 0.06	\$ 0.06
Second quarter	\$ 0.06	\$ 0.06
First quarter	\$ 0.06	\$ 0.06
<b>YEAR ENDED DECEMBER 31, 2013</b>		
Fourth quarter	\$ 0.07	\$ 0.07
Third quarter	\$ 0.34	\$ 0.34
Second quarter	\$ 0.04	\$ 0.04
First quarter	\$ 0.11	\$ 0.11

- \*less than a penny (<\$0.01)

### *(b) Holders*

As of April 7, 2015, there were approximately 173 stockholders of record of our common stock. This number does not include beneficial owners from whom shares are held by nominees in street name.

### *(c) Dividend Policy*

We have not paid any cash dividends on our common stock to date, and we have no intention of paying cash dividends in the foreseeable future. Whether we declare and pay dividends is determined by our board of directors at their discretion, subject to certain limitations imposed under Delaware corporate law. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our board of directors.

### *(d) Securities Authorized for Issuance under Equity Compensation Plans*

The Company does not currently have an equity compensation plan in effect.

### **Recent Sales of Unregistered Securities; Uses of Proceeds from Registered Securities**

On August 22, 2014 the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005.16 in past due debt which includes debts payable to AmerisourceBergen, TCA, individual note holders, related parties and assorted past due amounts for accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company's debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. The settlement of such debt is pending a proposed 3(a)(10) Transaction, which received judicial approval on September 3, 2014 pursuant to a complaint filed with the Circuit Court of the Second Judicial Circuit in Leon County, Florida on June 24, 2014. There is no guarantee at this time that the 3(a)(10) transaction

will be successful in alleviating the company's debt.

On October 1, December 2, and December 22, 2014, 13,806,000 shares of the Company's common stock were issued to Tarpon Bay as part of the 3(a)(10) transaction. Prior to year end 8,632,000 shares had been liquidated by Tarpon with payments being made to the original debts, satisfaction towards the payment of the debt acquisition costs and their fees. Subsequent to year end there were an additional 12,031,000 shares issued to Tarpon for satisfaction towards the agreement.

On July 1, 2014, the board of directors agreed to issue 5,000,000 shares of the Company's common stock to Spark Financial Consulting, Inc. in satisfaction of \$60,000 in past due debt.

On July 3, 2014 the company's shareholders and board of directors authorized the creation of 51 shares of Series A Super-voting Preferred Stock at par value of \$0.001 per share. The series is a non-dividend producing instrument which will rank superior to the Company's common stock.

Each one (1) share of the Series A Preferred Stock shall have voting rights equal to (x) 0.019607 *multiplied by* the total issued and outstanding Common Stock and Preferred Stock eligible to vote at the time of the respective vote (the "**Numerator**"), *divided by* (y) 0.49, *minus* (z) the Numerator. For the avoidance of doubt, if the total issued and outstanding Common Stock eligible to vote at the time of the respective vote is 5,000,000, the voting rights of one share of the Series A Preferred Stock shall be equal to  $102,036 (0.019607 \times 5,000,000) / 0.49 - (0.019607 \times 5,000,000) = 102,036$ ).

With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series A Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Certificate of Incorporation or By-laws.

On July 11, 2014, the board of directors approved the issuance of 51 shares of the Company's Series A Preferred Stock to Armen Karapetyan, which is equal to 50.99% of the total voting power of all issued and outstanding voting capital of the company in satisfaction of \$20,000 in past due debt. As of September 30, 2014 the Series A Preferred shares have been granted but not issued.

There were no other sales of unregistered securities during the fiscal years ended December 31, 2014 and 2013 other than those transactions previously reported to the SEC and OTC Markets on the Company's quarterly reports, interim reports, on Form 10-Q and current reports on Form 8-K.

#### **Rule 10B-18 Transactions**

During the years ended December 31, 2014 and 2013, there were no repurchases of the Company's common stock by the Company.

## MANAGEMENT DISCUSSIONS AND ANALYSIS

### 2014 HIGHLIGHTS

In 2014, the company shifted its focus to the growth and development of its pharmacy services due in large part to the expiration of its Medicare Part B competitive bidding contract. This renewed attention to the company's core business allowed the company to grow overall sales despite the loss in revenue generated from sales and rentals of durable medical equipment. The company also has made great strides in eliminating losses due to bad debt by enhancing its claims tracking and reconciliation process.

On April 8, 2014, The United States District Court for the Southern District of Florida dismissed the case with TCA Global Credit Master Fund without prejudice. On May 23, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction, which reduced the outstanding debt to \$575,000.

On April 26, 2014 the company terminated the lease without penalty for the previously proposed North Shore location. The lease was terminated due to insurmountable zoning and permitting restrictions placed on the site. The location in North Shore, FL was approximately 1,600 square feet.

On June 5, 2014, PharmCo 780, Inc. withdrew its application for a DEA license. PharmCo 780 is considering filing a new application for licensure on 2015 for reconsideration. The Opa-locka, FL location is currently being used to provide free HIV/STD screenings to the general public.

In addition to the operational improvements, the company has begun an initiative to reduce the amount of debt currently being held on the balance sheets and settle any legal disputes regarding past due debts. This initiative involves successfully executing a 3(a)(10) transaction which would consolidate notes and past due payables into a single note to be paid by the issuance and subsequent sale of the company's common stock.

To this end, on July 30, 2014, the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005 in past due debt and accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company's debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. On August 25, 2014 the Settlement Agreement between the Company and Tarpon Bay was signed by all parties.

On July 1, 2014, the board of directors agreed to issue 5,000,000 shares of the Company's common stock to Spark Financial Consulting, Inc. in satisfaction of \$60,000 in past due debt.

On July 3, 2014 the company's shareholders and board of directors authorized the creation of 51 shares of Series A Super-voting Preferred Stock at par value of \$0.001 per share. The series is a non-dividend producing instrument which will rank superior to the Company's common stock.

Each one (1) share of the Series A Preferred Stock shall have voting rights equal to (x) 0.019607 *multiplied by* the total issued and outstanding Common Stock and Preferred Stock eligible to vote at the time of the respective vote (the "**Numerator**"), *divided by* (y) 0.49, *minus* (z) the Numerator. For the avoidance of doubt, if the total issued and outstanding Common Stock eligible to vote at the time of the respective vote is 5,000,000, the voting rights of one share of the Series A Preferred Stock shall be equal to  $102,036 (0.019607 \times 5,000,000) / 0.49 - (0.019607 \times 5,000,000) = 102,036$ .

With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series A Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Certificate of Incorporation or By-laws.



On July 11, 2014, the board of directors approved the issuance of 51 shares of the Company's Series A Preferred Stock to Armen Karapetyan, which is equal to 50.99% of the total voting power of all issued and outstanding voting capital of the company in satisfaction of \$20,000 in past due debt. As of September 30, 2014 the Series A Preferred shares have been granted but not issued.

On September 3, 2014 an Amended Order Granting Approval of Settlement Agreement and Stipulation was approved by the courts.

On October 1, 2014, the Company issued 3,408,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

Tarpon began selling its shares to satisfy the creditors on October 28, 2014. This transaction is highly dilutive, but the Company believes that, upon completion, it will be better able to meet current and future capital and financing needs.

On December 2, 2014 and December 22, 2014 the Company issued a total of 10,398,000 additional shares to Tarpon who has continued to sell its shares to satisfy the creditors. Between October 28, 2014 and December 31, 2014, a total of \$12,000 was disbursed to satisfy creditors.

In the last quarter of 2014, the Company began series of major operational changes. The first of these is a major transition to filling 90-day supplies of medications in accordance with best practices research. This transition has helped to reduce the cost of delivery, increased patient adherence, as well as improved the overall quality of service provided the pharmacy. To facilitate growth and revitalize the image of the PharmCo brand the Company renovated the main PharmCo location. This renovation consisted of a significant reconfiguration of the retail space, addition of office space, work stations, new computer hardware and equipment and the build-out of a space for non-sterile compounding medications. PharmCo began its compounding operation in October 2014.

Pharmco's compounding department specializes in formularies such as non-narcotic topical pain creams, wound care creams, scar gels and hormone replacement therapies. The company also offers EnovaRx, which are FDA approved manufactured pain creams that are readily available with a prescription. In addition to these medications, Pharmco prepares psoriasis creams, wellness vitamins, weight loss formulations and holistic capsules which are 100% Kosher and Halal certified. Compounded medications require strict compliance procedures and are highly labor intensive. As such, these medications can carry significantly higher gross margins than traditional mass manufactured prescriptions. The Company believes that diversifying into this area of the pharmaceutical industry will be greatly beneficial to both its short term financial position as well as its long term viability in the market.

## RESULTS OF OPERATIONS

Net revenues increased 20.74% for the year ended December 31, 2014 as compared to year ended December 31, 2013, from approximately 9.33 million to approximately \$11.27 million. Pharmacy revenues represented approximately 98% of total revenues for the year ended December 31, 2014 and 91% of total revenues for the year ended December 31, 2013. DME revenues represented 2% of total revenues in 2014 and 9% in 2013.

Net loss from continuing operations before income taxes decreased 30.00% for the year ended December 31, 2014 as compared to the year ended December 31, 2013, from approximately \$.61 million to approximately \$0.43 million. Net loss from continuing operations before income taxes increased 72.39% for the year ended December 31, 2014 as compared to the year ended December 31, 2013 from approximately \$0.56 million to approximately \$1.009 million. This increase in net loss was substantially due to approximately \$0.8 million in interest expense from the derivative liability calculated on the securities linked to the Tarpon 3(a)(10) transaction.

Gross margin as a percent of sales decreased from 23% for the year ended December 31, 2013 to 15% for the year ended December 31, 2014. Overall margins were negatively impacted by increased sales of anti-retroviral medications which carry a low gross margin, decreased sales from cash paying customers which contributed a higher gross margin, and decreased sales as a result of Medicare's DME review which also has a significantly high gross margin than pharmacy sales.

Selling, general and administrative expenses decreased 16% from \$2.5 million for the year ended December 31, 2013 to \$2.1 million for the year ended December 31, 2014. Selling, general and administrative expenses as a percentage of sales for the years ended December 31, 2014 and 2013 were 19% and 27% respectively. The decrease in SG&A was primarily a result of decreases in costs associated with auditing and legal expenses caused by maintaining a public company. The Company also used some other overhead cost cutting measures.

### Liquidity and Capital Resources

Cash on hand at December 31, 2014 and 2013 were \$83,716 and \$58,810, respectively. Net cash used by operating activities for the years ended December 31, 2014 and 2013 were \$80,740 and 441,104, respectively. When compared to the prior year, cash used from operating activities was reduced due increases in accounts payable, decreases to the allowance for doubtful accounts and adjustments recorded for debt discount, debt issue cost, and derivative liabilities.

Net cash provided by investing activities for the year ended December 31, 2014 was \$105,646. Net cash provided by investing activities was \$36,106 for the year ended December 31, 2013.

Net cash provided by financing activities was \$0.00 and \$456,451 for the years ended December 31, 2014 and December 31, 2013. When compared to the current year, cash from financing activities was higher in large part to the debt financing conducted with TCA Global Credit Master Fund, LP, and certain other investors and related parties.

Our continued operations will primarily depend on whether we are able to generate revenues and profits and/or raise additional funds through various potential sources, such as equity and debt financing. Such additional funds may not become available on acceptable terms and there can be no assurance that any additional funding that we do obtain will be sufficient to meet our needs in the long term. We will continue to fund operations from cash on hand and through the similar sources of capital previously described. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs.

### Current and Future Financing Needs

We have incurred an accumulated deficit of \$2,200,057 through December 31, 2014 and \$1,191,353 through December 31, 2013. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our



business strategy.

Based on our current plans, we believe that our current cash may not be sufficient to enable us to meet our planned operating needs.

However, the actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing include public or private sales of our shares or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time (other than the \$1,826,005 section 3(a)(10) transaction disclosed in this document) and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit our operations and our business, financial condition and results of operations would be materially harmed.

### **Critical Accounting Policies**

In 2011, the Company estimated allowances for doubtful accounts to be 5% of the outstanding balance of accounts receivable based upon pharmacy industry standards as a whole. Upon further review in 2012, this estimate was deemed inadequate given the historical performance of the Company. The Company recalculated average days of receivables aging and determined that an allowance based on aging would be more appropriate for the estimation of an allowance for doubtful accounts. The company believes that any receivables aged over 90 days, for pharmacy sales, and 9 months, for DME sales or rentals, are unlikely to be collected and thus written off. This schedule has more accurately tracked the allowance for doubtful accounts and limit volatility in accounts receivable over time.

In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carry-forwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. Based on current estimates of future taxable income, the Company believes that it will not be able to realize the full value of deferred tax assets and has increased its allowance valuation to offset completely its deferred tax assets resulting from Company net operating losses ("NOL")

### **Off-Balance Sheet Arrangements**

We do not have any unconsolidated special purpose entities and, we do not have significant exposure to any off-balance sheet arrangements. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.



CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (UNAUDITED)

Progressive Care Inc. and Subsidiaries

**Consolidated Balance Sheets**

**(UNAUDITED)**

	December 31, 2014	December 31, 2013
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 83,716	\$ 58,810
Accounts receivable - net	610,110	404,636
Federal taxes receivable	-	-
Accrued revenue	12,503	-
Inventory - net	313,738	279,171
Prepaid expenses	43,561	30,896
<b>Total Current Assets</b>	<b>1,063,628</b>	<b>773,512</b>
<b>Property and equipment - net</b>	<b>147,017</b>	<b>287,762</b>
<b>Other Assets</b>		
Debt acquisition costs - net	95,578	251,356
Deposits	40,293	47,612
Deferred tax asset	-	-
<b>Total Other Assets</b>	<b>135,871</b>	<b>298,968</b>
<b>Total Assets</b>	<b>\$ 1,346,515</b>	<b>\$ 1,360,242</b>
<b><u>Liabilities and Stockholders' (Deficit) Equity</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 597,835	\$ 1,027,854
Deferred rent payable	81,551	68,160
Income taxes payable	-	-
Convertible notes payable- net of discount	-	518,007
Notes payable - related party	-	178,500
Notes payable - other	1,956,069	333,523
Accrued interest payable - related party	-	-
Unearned revenue	297,725	-
Derivative liability	1,438,939	120,564

<i>Debt discount</i>	(1,230,477)	-
<b>Total Current Liabilities</b>	<b>3,141,642</b>	<b>2,246,607</b>
<b>Long Term Liabilities</b>		
<i>Note Payable</i>	150,000	150,000
<b>Total Liabilities</b>	<b>3,291,642</b>	<b>2,396,607</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' (Deficit) Equity</b>		
<i>Preferred Stock, Series A par value \$0.001; shares authorized</i>		
<i>51 and 0 issued and outstanding as of December 31, 2014 and 2013, respectively</i>	-	-
<i>Common stock, par value \$0.0001; 100,000,000 shares authorized</i>		
<i>41,068,344 and 27,706,344 issued and outstanding as of December 31, 2014 and 2013 respectively</i>	4,106	2,770
<i>Additional paid-in capital</i>	251,304	152,218
<i>Retained Earnings (Accumulated Deficit)</i>	(2,200,537)	(1,191,354)
<b>Total Stockholders' (Deficit) Equity</b>	<b>(1,945,127)</b>	<b>(1,036,365)</b>
<b>Total Liabilities and Stockholders' (Deficit) Equity</b>	<b>\$ 1,346,515</b>	<b>\$ 1,360,242</b>

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (UNAUDITED)**

*Progressive Care Inc. and Subsidiaries*

**Consolidated Statement of Operations (UNAUDITED)**

	December 31, 2014	December 31, 2013
<b>Sales - net</b>	\$ 11,268,803	\$ 9,333,141
<b>Cost of sales</b>	9,554,777	7,215,198
<b>Gross profit</b>	1,714,026	2,117,943
<b>Selling, general and administrative expenses</b>		
Bad debt expense	43,585	219,502
Other selling, general and administrative expense	2,097,486	2,508,205
<b>Total Selling, general and administrative expenses</b>	<b>2,141,071</b>	<b>2,727,707</b>
<b>Loss from operations</b>	(427,045)	(609,763)
<b>Other Income (Expense)</b>		
Change in fair value of derivative liability	386,769	524,925
(Loss) on expiration of convertible debt	-	(22,776)
(Loss) on debt settlement	(17,440)	-
(Loss) on expired inventory	(31,614)	(17,521)
(Loss) on discontinued operations	(10,630)	-
Gain on sale of assets	5,357	-
Interest income	1	5
Interest expense	(893,370)	(449,638)
<b>Total other income (expense) - net</b>	<b>(560,927)</b>	<b>34,995</b>
<b>Net loss before income tax expense</b>	(987,972)	(574,768)
<b>Provision for income tax expense</b>		
Current income tax (benefit) expense	(21,213)	(10,649)
Deferred income tax expense	-	-
<b>Total income tax expense</b>	<b>(21,213)</b>	<b>(10,649)</b>
<b>Net loss</b>	\$ (1,009,185)	\$ (585,417)
<b>Basic and diluted net loss per common share</b>	(0.03)	(0.02)
<b>Weighted average number of common shares outstanding during the period - basic and diluted</b>	31,338,602	26,494,318



CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (UNAUDITED)

Progressive Care Inc. and Subsidiaries

Consolidated Statements of Stockholders' (Deficit) Equity

December 31, 2014 and 2013 (UNAUDITED)

	Preferred Series A \$0.001 Par Value		Common Stock \$0.0001 Par Value		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	<b>Balance, December 31, 2012</b>	-	\$ -	24,821,459			
<i>Issuance of common stock for debt issue costs</i>	-	-	2,500,000	250	169,750	-	170,000
<i>Issuance of common stock for services rendered</i>	-	-	234,885	23	52,977	-	53,000
<i>Issuance of common stock for services rendered - related party</i>	-	-	150,000	15	4,986	-	5,001
<i>Net loss for the year ended December 31, 2013</i>	-	-	-	-	-	(585,417)	(585,417)
<b>Balance, December 31, 2013</b>	-	\$ -	27,706,344	\$ 2,770	\$ 152,217	\$(1,191,353)	\$ (1,036,366)
<i>Issuance of common stock for settlement of debt - related party</i>	-	-	5,000,000	500	59,500	-	60,000
<i>Issuance of Preferred Series A stock for settlement of debt - related party</i>	51	0	-	-	20,000	-	20,000
<i>Issuance of common stock for debt per 3(a)(10) settlement agreement</i>	-	-	8,362,000	836	19,587	-	20,422
<i>Net loss for the year ended December 31, 2014</i>	-	-	-	-	-	(1,009,184)	(1,009,184)
<b>Balance, December 31, 2014</b>	51	\$ 0	41,068,344	\$ 4,106	\$ 251,304	\$(2,200,537)	\$ (1,945,127)



CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (UNAUDITED)

Progressive Care Inc. and Subsidiaries

**Consolidated Statements of Cash Flows**

**Years Ended December 31, 2014 and 2013 (UNAUDITED)**

	December 31, 2014	December 31, 2013
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (1,009,185)	\$ (585,417)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	35,099	(51,495)
Deferred taxes	-	-
Change in Allowance of Doubtful Accounts	43,585	219,502
Stock-based compensation	-	53,000
Stock-based compensation - related parties	-	5,000
Amortization of debt issue and debt discount	155,779	(170,000)
Change in fair value of derivative liability	1,318,375	(213,040)
Change in debt discount	(1,230,477)	-
Change in deferred/unearned revenue	297,725	-
Gain on debt forgiveness	-	120,564
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(261,561)	(238,906)
Federal taxes receivable	0	36,096
Inventory	(34,567)	(55,423)
Prepaid Expenses	(12,665)	4,952
Deposits	7,319	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	596,442	413,119
Deferred rent	13,391	20,944
Income tax payable	-	-
Accrued interest payable - related party	-	-
<b>Net Cash Used in Operating Activities</b>	<b>(80,740)</b>	<b>(441,104)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	105,646	36,106
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>105,646</b>	<b>36,106</b>
<b>Cash Flows From Financing Activities:</b>		
Cash overdraft	-	(29,187)
Proceeds from issuance of notes payable	-	410,680

<i>Proceeds from issuance of notes payable - related party</i>	-	68,000
<i>Repayment of notes payable</i>	-	(163,042)
<i>Shares issued in connection with debt acquisition costs</i>	-	170,000
<b>Net Cash Provided by Financing Activities</b>	-	456,451
<b>Net decrease in cash</b>	24,906	51,453
<i>Cash at beginning of period</i>	58,810	7,357
<b>Cash at end of period</b>	<b>\$ 83,716</b>	<b>\$ 58,810</b>
<b><u>Supplemental disclosures of cash flow information:</u></b>		
<i>Cash paid for interest</i>	\$ -	\$ -
<i>Cash paid for taxes</i>	\$ -	\$ -
<b><u>Supplemental disclosures of non-cash financing activities:</u></b>		
<i>Conversion of accounts payable and convertible debt to notes payable per settlement agreement</i>	\$ 1,826,005	\$ 26,137
<i>Issuance of common stock against debt per agreement</i>	\$ 20,423	\$ -
<i>Issuance of Preferred Series A stock for conversion of debt related party</i>	\$ 20,000	\$ -
<i>Issuance of common stock for conversion of debt related party</i>	\$ 60,000	\$ -





PROGRESSIVE CARE INC. AND SUBSIDIARY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013 (UNAUDITED)

**Note 1 Organization & Nature of Operations**

Progressive Care, Inc. (the "Company", formerly Progressive Training, Inc.) was incorporated under the laws of the state of Delaware on October 31, 2006. PharmCo, LLC ("PharmCo"), headquartered in North Miami Beach, Florida, was formed on November 29, 2005 as a Florida Limited Liability Company. On October 21, 2010, the Company acquired PharmCo.

The Company through its wholly-owned subsidiary, PharmCo, LLC, is a South Florida provider of prescription pharmaceuticals specializing in health practice risk management, the sale of anti-retroviral medications and related medication therapy management, the sale and rental of durable medical equipment ("DME") and the supply of prescription medications to long term care facilities. The Company is focused on developing the PharmCo brand and adding business elements that cater to specific under-served markets and demographics. This effort includes community and network based marketing strategies, the introduction of new locations, acquisitions and the strategic collaboration(s) with community, government and charitable organizations.

**Note 2 Basis of Presentation and Reclassification**

As of January 27, 2011, the Company's fiscal year end is December 31. There were no changes affecting financial position, operations or cash flows.

**Note 3 Summary of Significant Accounting Policies**

**Principles of Consolidation**

All inter-company accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions impact both assets and liabilities, including but not limited to: net realizable value of accounts receivable, estimated useful lives and potential impairment of property and equipment, the value of goodwill and intangible assets and related potential impairment, estimated fair value of warrants using the Black-Scholes option pricing method and estimates of tax liabilities.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, actual results could differ significantly from estimates.

**Cash**

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits; however, at December 31, 2014 and December 31, 2013, respectively, the balances did not exceed the federally insured limit.

**Risks and Uncertainties**



The Company's operations are subject to intense competition, risk and uncertainties including financial, operational, regulatory and other risks including the potential risk of business failure.

### Billing Concentrations

The Company's primary receivables are from prescription medication and DME equipment billed to various insurance providers. Ultimately, the insured is responsible for payment should the insurance company not reimburse the Company. The Company generated reimbursements from four significant insurance providers for the years ended December 31, 2014 and 2013

Payors	Year Ended December 31, 2014	Year Ended December 31, 2013
A	15%	20%
B	13%	14%
C	10%	13%
D	--	11%

### Inventory

Inventory is valued on a lower of first-in, first-out (FIFO) cost or market basis. Inventory primarily consists of prescription medications, retail items and DME equipment available to be sold or rented.

### Property and Equipment

Company used property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred.

The Company provides DME on rent-to-own terms. Pursuant to Medicare guidelines (which are followed by private insurance carriers as well) DME equipment is "rented" to the insured for 13 months, after which title to the equipment transfers to the insured.

Depreciation is computed on a straight-line basis over estimated useful lives as follows:

Description	Estimated Useful Life
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease
Furniture and equipment	5 years
Computer equipment and software	3 years
Vehicles	3-5 years
DME equipment rented	13 months

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment charges for the years ended December 31, 2014 and 2013.

### Business Combinations

The Company accounts for business combinations using the acquisition method of accounting and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values is recorded as goodwill. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year



from the date of acquisition, will change the amount of the purchase prices allocable to goodwill. All acquisition costs are expensed as incurred.

### Intangible Assets

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. Such intangible assets are reviewed for impairment if indicators of potential impairment exist. Indefinite-lived intangible assets are tested for impairment on an annual basis, or sooner if an indicator of impairment occurs.

No impairment charges of intangible assets were recorded for the years ended December 31, 2014 and 2013.

### Debt Acquisition Costs

The Company paid debt acquisition costs in connection with raising funds through the issuance of a 3(a)(10) Share Agreement. These costs are amortized over the first few months of the agreement to interest expense. Total amortization of debt acquisition costs for 2014 and 2013 was \$4,422 and \$74,435 respectively. If a conversion of the underlying debt occurs, the proportionate share of the unamortized amounts is immediately expensed.

### Fair Value of Financial Instruments

The accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact business and considers assumptions that marketplace participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

The guidance also establishes a fair value hierarchy for measurements of fair value as follows:

- Level 1 – quoted market prices in active markets for identical assets or liabilities.
- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The Company's financial instruments consisted of cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and notes payable. The carrying amounts of the Company's financial instruments generally approximate their fair values at December 31, 2014 and 2013, due to the short term nature of these instruments.

The following are the major categories of liabilities measured at fair value on a recurring basis as of December 31, 2014 and December 31, 2013, significant other observable inputs (Level 2):

	December 31, 2014	December 31, 2013
<b>Conversion feature related to convertible debt (Level 2)</b>	\$ 0.00	\$ 0.00

The Level 2 valuation relates to a conversion feature related to convertible debt measured using management's estimates of fair value as well as other significant inputs that are unobservable.

The Company has determined the estimated fair value amounts presented in these financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

### **Derivative Liabilities**

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement of their fair value. In determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as derivative financial instruments.

Once derivative liabilities are determined, they are adjusted to reflect fair value at the end of each reporting period. Any increase or decrease in the fair value is recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model. Once a derivative liability ceases to exist any remaining fair value will be reclassified to Gain (Loss) on Expiration of Convertible component of the debt.

### **Revenue Recognition**

The Company records revenue when all of the following have occurred: (1) pervasive evidence of an arrangement exists, (2) asset is transferred to the customer without further obligation, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured.

For the years ended December 31, 2014 and 2013, the Company had two identifiable continuing revenue streams:

#### **(i) Pharmacy**

The Company recognizes its pharmacy revenue when a customer picks up or is delivered their prescription or purchases merchandise at the store. Billings for most prescription orders are with third-party payers, including Medicare, Medicaid and insurance carriers. Customer returns are nominal.

Total pharmacy revenues for the years ended December 31, 2014 and 2013 were approximately \$ 10,998,000 (98%) and \$8,494,000 (91%) respectively.

#### **(ii) Durable Medical Equipment**

The Company recognizes DME revenue from the date the equipment is picked up at its store or delivered to the customer. Revenue from DME rentals is recorded over a 13 month period. Customer returns are nominal.

Total DME revenues for the years ended December 31, 2014 and 2013 were approximately \$247,000 (2%) and \$829,000 (9%), respectively.



## Cost of Sales

Cost of pharmacy sales is derived based upon vendor purchases relating to prescriptions sold and point-of-sale scanning information for non-prescription sales, and is adjusted based on periodic inventories. All other costs related to sales are expensed as incurred.

Cost of DME sales is derived based upon vendor purchases relating to equipment sold and is adjusted based on periodic inventories. All other costs related to sales are expensed as incurred.

## Vendor Concentrations

For the years ended December 31, 2014 and 2013, the Company had significant vendor concentrations with two vendors. The purchases from these significant vendors are as follows:

Vendor	Year Ended December 31, 2014	Year Ended December 31, 2013
A	87%	65%
B	9%	20%

## Selling, General and Administrative Expenses

Selling expenses primarily consist of store salaries, contract labor, occupancy costs, and expenses directly related to the store. Other general and administrative costs include advertising, insurance and depreciation and amortization.

## Advertising

Costs incurred for producing and communicating advertising for the Company are charged to operations as incurred and are as follows

	Year Ended December 31, 2014	Year Ended December 31, 2013
\$	37,590	\$ 38,375

## Stock-Based Payment Arrangements

Generally, all forms of stock-based payments, including warrants, are measured at their fair value on the awards' grant date typically using a Black-Scholes pricing model, based on the estimated number of awards that are ultimately expected to vest. Stock-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the stock-based payment, whichever is more readily determinable. The expense resulting from stock-based payments are recorded in selling, general and administrative expenses in the consolidated statements of operations.

## Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in 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 income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized; changes in recognition or



measurement are reflected in the period in which the change in judgment occurs.

The Company does not believe it has any uncertain tax positions in 2014 and 2013.

### Earnings (Loss) per Share

Basic earnings/loss per share (“EPS”) is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock warrants, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock warrants), and convertible debt, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

The Company had the following potential common stock equivalents outstanding at December 31, 2014:

	Shares
Convertible debt – face amount of \$150,000; fixed conversion price ;\$0.40	375,000
Common stock warrants - 15,000; exercise price of \$0.40 (expired November 2014)	--
Total common stock equivalents	<u>375,000</u>

The Company reflected a net loss for the years ended December 31, 2014 and 2013; therefore, the effect of considering any common stock equivalents, if outstanding, would be anti-dilutive; consequently, a separate computation of diluted earnings (loss) per share is not presented.

### Recent Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its consolidated financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

### Note 4. Going Concern

During the year ended December 31, 2014, the Company had a net loss of approximately \$1.009 million and negative cash flow from operations of approximately -\$81,000. The Company does not believe that it will need additional capital to operate over the next 12 months but additional funding will be necessary to complete planned expansion initiatives. To address its financing requirements, the Company will seek funding through offering equity or convertible debt securities to individual and institutional investors. The outcome of these matters cannot be predicted at this time.

Historically, the Company has had operating losses, negative cash flows, and working capital deficiencies. Whether, and when, the Company can attain profitability and positive cash flows from operations is uncertain. Also, the Company is uncertain as to whether it can obtain financing to execute growth objectives.

Uncertainties also exist as to the final outcome of legal proceedings which may entail a foreclosure on assets pledged by the Company, and settlement of these matters on beneficial terms for the Company is not assured. See Note 10.

These uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. The Company’s financial statements do not include any adjustments that might result from the outcome of these uncertainties. See Note

10.

#### Note 5. Accounts Receivable

Accounts receivable consisted of the following at December 31, 2014 and December 31, 2013.

	December 31, 2014	December 31, 2013
Gross accounts receivable	\$ 658,102	\$ 498,042
Allowance	- 47,992	-118,825
Unbilled receivables	12,503	25,419
Accounts receivable – net	<u>\$ 622,613</u>	<u>\$ 404,636</u>

The Company recorded a reduction to accounts receivable for estimated differences between the expected and actual payment of accounts receivable. These reductions were made based upon reasonable and reliable estimates that were determined by historical experience, contractual terms, and current conditions. Each quarter, the Company reevaluates its estimates to assess the adequacy of its allowance and adjusts the amounts as necessary.

For the years ended December 31, 2014 and 2013, the Company wrote off \$43,585 and \$219,502, respectively, of its accounts receivable to the allowance for doubtful accounts.

#### Note 6. Property and Equipment

Property and equipment consisted of the following at December 31, 2014 and December 31, 2013.

	December 31, 2014	December 31, 2013
Leasehold improvements and fixtures	226,057	226,457
Furniture and equipment	54,304	33,374
Computer equipment and software	56,406	56,406
Vehicles	59,620	90,046
DME	64,096	155,445
Total	460,475	561,729
Less: accumulated depreciation	-313,458	-273,966
Property and equipment – net	<u>\$ 147,017</u>	<u>287,762</u>



Depreciation and amortization expense for 2014 and 2013 was \$35,099 and \$37,618, respectively.

## Note 7. Notes Payable

Notes payable consists of the following:

	December 31, 2014	December 31, 2013
A. Convertible note payable – collateralized	0	518,007
Less: Unamortized debt discount	-	
Convertible note payable – net	0	518,007
B. Convertible note payable – uncollateralized	150,000	150,000
C. Note payable – related party	0	178,500
D. Note payable – collateralized	0	333,5233
E Section 3(a) (10) Loan	\$ 1,806,069	\$ 0
Total debt	\$ 1,956,069	\$ 180,030
Current portion – notes payable	\$	\$ 850,030
Current portion note payable – related party	0	178,500
Long term portion – convertible note payable	0	150,000

### (A) Convertible Note Payable – collateralized

During the year ended December 31, 2012, the Company issued a secured convertible note for \$500,000. The note bears interest of 12% per annum (1% per month), of which 6% is paid monthly and 6% is accrued and due in a balloon payment at maturity. At December 31, 2012, unpaid accrued interest on this note was \$27,500. The note has a default interest rate of 18%, a maturity date of April 30, 2013 and is secured by all of the assets of the Company and its subsidiary. The debt holder is entitled, at their option, to convert all or part of the principal and unpaid accrued interest into shares of the Company's common stock. The note is convertible at 95% of the volume weighted average price of the

Company's common stock for the 5 days preceding conversion. The embedded conversion feature within this note classifies it as a derivative liability.

The Company incurred debt issue costs of \$202,500 in connection with the note, for which common stock valued at \$7,000 was issued, a note payable was issued of approximately \$93,000, and the remaining \$102,500 was paid in cash.

On June 4, 2013, the Company entered into an amendment agreement with the debt holder whereby all outstanding accrued interest, principal, and facility fees were rolled into a single note. The face value of the note was \$623,007.06 and matured on November 1, 2013 with a payment schedule of \$35,000 for the first 3 months, \$75,000 for 2 months and a balloon for the remainder due on or before November 1, 2013. On November 18, 2013, TCA Global Credit Master Fund, L.P. ("TCA") filed a complaint against the Company and PharmCo in the United States District Court for the Southern District of Florida. The complaint alleges, among other things, that the Company is in default of that certain First Amendment to Certain Agreements effective as of June 4, 2013 by and between the Company and TCA and that certain Replacement, Amended and Restated Promissory Note issued by the Company in favor of TCA. In addition, the Complaint

alleges that PharmCo is in breach of that certain Acknowledgement and Affirmation of Guaranty Agreement by and between PharmCo and TCA. TCA sought to recover \$687,176 plus interest, costs, attorneys and to foreclose on the assets pledged by the Company and PharmCo in connection with the transaction.

On April 8, 2014, The United States District Court for the Southern District of Florida dismissed the case without prejudice. On May 23, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction, which reduced the outstanding debt to \$575,000. The Company believes it has recorded the full value of debt due to TCA on the consolidated balance sheets under notes payable.

The principal balance and accrued interest has been included as part of the Tarpon Bay Section 3(a)(10) Share Settlement Agreement that was approved by the Courts on September 3, 2014. As Tarpon Bay receives tranches of shares and sells them on the open market, the balance owed on this original convertible note will be paid based on the percentage owed and the amount collected.

(B) Convertible Note Payable – uncollateralized

On November 28, 2011, the Company entered into a \$150,000 3-year 8% convertible note with an investor. Under the terms of the note, the investor has the option to convert their note into shares of the Company's common stock at an exercise price of \$0.40 per share. In connection with this note, the Company paid debt issue costs of \$18,000 and issued 15,000, 3-year warrants exercisable at \$0.40 per share, having a fair market value of \$4,895, as calculated using the Black Scholes valuation method. The warrants vested on the date of issuance and expired November 27, 2014. See Note 8.

(C) Convertible Note Payable – uncollateralized

On April 23, 2013, the Company entered into a \$300,000 1-year 10% convertible note with an investor. Under the terms of the Note, the investor has the option to convert the Note into shares of the Company's common stock at an exercise price of \$0.40/share. In connection with this note, the Company incurred debt issue costs of 1,000,000 shares of stock valued at the closing price on the OTCBB on April 13, 2013, which was \$0.11. The securities are restricted securities, and may not be sold, transferred or otherwise disposed without registration under the Securities Act of 1933, as amended (the "Act"), or an exemption thereunder. The securities were offered and sold in reliance on the exemption from registration under Section 4(2) of the Act. The offering was not conducted in connection with a public offering, and no public solicitation or advertisement was made or relied upon by the individual in connection with the offering.

The principal balance and accrued interest has been included as part of the Tarpon Bay Section 3(a)(10) Share Settlement Agreement that was approved by the Courts on September 3, 2014. As Tarpon Bay receives tranches of shares and sells them on the open market, the balance owed on this original convertible note will be paid based on the percentage owed and the amount collected.

(D) Notes Payable – Related Party

The Company issued \$178,500 in aggregated unsecured promissory notes to a control shareholder, Mr. Armen Karapetyan, between August 24, 2012 and December 31, 2013. The notes are non-interest bearing and were payable upon demand.

The principal balance owed has been included as part of the Tarpon Bay Section 3(a)(10) Share Settlement Agreement that was approved by the Courts on September 3, 2014. As Tarpon Bay receives tranches of shares and sells them on the open market, the balance owed on this original convertible note will be paid based on the percentage owed and the amount collected.

(E) Section 3(a)(10) Note Payable

On August 22, 2014 the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005.16 in past due debt which includes debts payable to AmerisourceBergen, TCA, individual note holders, related parties and assorted past due amounts for accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company’s debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. The settlement of such debt is pending a proposed 3(a)(10) Transaction, which received judicial approval on September 3, 2014 pursuant to a complaint filed with the Circuit Court of the Second Judicial Circuit in Leon County, Florida on June 24, 2014. There is no guarantee at this time that the 3(a)(10) transaction will be successful in alleviating the company’s debt.

On October 1, December 2, and December 22, 2014, 13,806,000 shares of the Company’s common stock were issued to Tarpon Bay as part of the 3(a)(10) transaction. Prior to year end 8,362,000 shares had been liquidated by Tarpon with payments being made to the original debts, satisfaction towards the payment of the debt acquisition costs and their fees. Subsequent to year end there were an additional 12,031,000 shares issued to Tarpon for satisfaction towards the agreement.

During the period October 1, 2014 through December 31, 2014, Tarpon Bay liquidated 8,362,000 share of the 13,806,000 share issued to them as part the Section 3(a)(10) Transaction. They received a total of \$20,422.19 from the sale of the shares with the proceeds being utilized as follows as satisfaction of the transaction, 1) \$12,000 dispersed to creditors, \$4,422.19 as success fee against the debt acquisition costs and \$4, 000 to Tarpon Bay as transaction fees. Subsequent to year end, Tarpon liquidated an addition 29,669,000 share for a total consideration of \$558,355.82 which was dispersed as follows: \$198,990.35 available to be disbursed to creditors, \$66,330.12 for Tarpon’s transaction fees and \$95,557.81 which is the remainder of the \$100,000 Debt Acquisition Costs. The \$197,477.54 is awaiting dispersal.

**Note 8. Derivative Liabilities**

In September 2014, the Company identified a conversion feature embedded within one the Section 3(a)(10) share agreement with Tarpon Bay and determined that it should be accounted for at fair value as a derivative liability. This feature expires when the debt has been satisfied. The derivative liability at December 31, 2014 was \$1,439,939.

The fair value of the conversion feature is summarized as follow:

Derivative liability - December 31, 2013	\$ -
Fair value at the commitment date for debt instruments	1,825,708
Fair value mark to market adjustment for debt instruments	<u>(386,769)</u>
Derivative liability – December 31, 2014	<u>1,438,939</u>

**Note 9. Stock Warrants**

The outstanding stock warrant during 2014 expired in November 2013

**Note 10. Stockholders’ (Deficit) Equity**

During the year ended December 31, 2013, the Company issued 2,884,885 shares of its common stock, with share prices ranging from \$0.03 to \$0.23, to officers, employees and consultants for services rendered and the acquisition of debt. The shares have a fair value of \$228,000. The fair value of stock issued for these services is based upon the quoted closing trading price, or the value of the services provided, whichever is more readily determinable

On July 1, 2014, the board of directors agreed to issue 5,000,000 shares of the Company’s common stock to Spark

Financial Consulting, Inc. in satisfaction of \$60,000 in past due debt.

On July 3, 2014 the company's shareholders and board of directors authorized the creation of 51 shares of Series A Super-voting Preferred Stock at par value of \$0.001 per share. The series is a non-dividend producing instrument which will rank superior to the Company's common stock.

Each one (1) share of the Series A Preferred Stock shall have voting rights equal to (x) 0.019607 *multiplied by* the total issued and outstanding Common Stock and Preferred Stock eligible to vote at the time of the respective vote (the "Numerator"), *divided by* (y) 0.49, *minus* (z) the Numerator. For the avoidance of doubt, if the total issued and outstanding Common Stock eligible to vote at the time of the respective vote is 5,000,000, the voting rights of one share of the Series A Preferred Stock shall be equal to  $102,036 (0.019607 \times 5,000,000) / 0.49 - (0.019607 \times 5,000,000) = 102,036$ .

With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series A Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Certificate of Incorporation or By-laws.

On July 11, 2014, the board of directors approved the issuance of 51 shares of the Company's Series A Preferred Stock to Armen Karapetyan, which is equal to 50.99% of the total voting power of all issued and outstanding voting capital of the company in satisfaction of \$20,000 in past due debt. As of September 30, 2014 the Series A Preferred shares have been granted but not issued.

On October 1, 2014, the Company issued 3,408,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On October 28, 2014, Tarpon began to sell its shares to satisfy the debtors as per the September 3, 2014 court approved Settlement Agreement and 3(a)(10) Transaction

On December 2, 2014, the Company issued 4,954,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On December 22, 2014, the Company issued 5,444,00 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction

## **Note 11. Commitments and Contingencies**

### Legal Matters

On July 26, 2013, the Company was named as a respondent to a complaint issued by AmerisourceBergen Drug Corporation. The complaint was filed in Pennsylvania and alleges among other things a failure by PharmCo, LLC to pay for prescription drugs furnished to PharmCo, LLC pursuant to a credit agreement dated April 18, 2011. On October 13, 2013 the Company filed a statement of answer responding to the allegations. The Company believes among other things that AmerisourceBergen instituted overly restrictive purchasing policies that impacted the Company's ability to service its patients and such policy is not present in the cited credit agreement. On August 21, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction.

The Company has accrued the full value of invoices due to AmerisourceBergen and the claim was settled for that amount. The total value of outstanding AmerisourceBergen invoices is approximately \$227,000 and is included on the consolidated balance sheets under notes payable as a result of the settlement.

On November 18, 2013, TCA Global Credit Master Fund, L.P. ("TCA") filed a complaint against the Company and PharmCo

in the United States District Court for the Southern District of Florida. The complaint alleges, among other things, that the Company is in default of that certain First Amendment to Certain Agreements effective as of June 4, 2013 by and between the Company and TCA and that certain Replacement, Amended and Restated Promissory Note issued by the Company in favor of TCA. In addition, the Complaint alleges that PharmCo is in breach of that certain Acknowledgement and Affirmation of Guaranty Agreement by and between PharmCo and TCA. TCA sought to recover \$687,176 plus interest, costs, attorneys and to foreclose on the assets pledged by the Company and PharmCo in connection with the transaction. On April 8, 2014, The United States District Court for the Southern District of Florida dismissed the case without prejudice. The Company participating in settlement negotiations with TCA pending the outcome of a proposed 3(a)(10) Transaction. On May 23, 2014, the Company entered into a settlement agreement pending the outcome of a planned 3(a)(10) transaction, which reduced the outstanding debt to \$575,000.

On August 22, 2014 the Company entered into an agreement with Tarpon Bay Partners LLC, for the purchase of \$1,826,005.16 in past due debt which includes debts payable to AmerisourceBergen, TCA, individual note holders, related parties and assorted past due amounts for accounts payable from the company for the purposes of executing a 3(a)(10) Transaction that would alleviate the Company's debt burden. Certain vendors agreed to the purchase of their debt by Tarpon Bay, including TCA. The settlement of such debt is pending a proposed 3(a)(10) Transaction, which received judicial approval on September 3, 2014 pursuant to a complaint filed with the Circuit Court of the Second Judicial Circuit in Leon County, Florida on June 24, 2014. There is no guarantee at this time that the 3(a)(10) transaction will be successful in alleviating the Company's debt.

The Company distributed three tranches of shares to Tarpon Bay between September 3 and December 31, 2014 in the amounts of 3,408,000, 4,954,000 and 5,444,000 on October 28, 2014, December 2, 2014 and December 22, 2014. In addition Tarpon Bay began to sell their shares and distribute the net proceeds as directed by the Agreement.

Management believes that obligations recorded on its consolidated balance sheets at December 31, 2014 and December 31, 2013 were adequate based on its assessment of the ongoing complaints.

### **Lease Commitments**

Rent expense was \$294,121 and \$293,822 respectively, for the year ended December 31, 2014 and December 31, 2013.

Deferred rent payable at December 31, 2014 and December 31, 2013 was \$81,551 and \$68,160, respectively. Deferred rent payable is the sum of the difference between the monthly rent payment and the straight-line monthly rent expense of an operating lease that contains escalated payments in future periods.

Our corporate office is located at 1111 Park Center Blvd, Suite 202, Miami Gardens, FL 33169. The corporate office lease is for 2 suites amounting to approximately 3,000 square feet. The monthly rent is approximately \$4,000. The lease expires September 30, 2014. The Company has not renewed the lease and has moved corporate operations to the PharmCo, LLC location at 901 N Miami Beach Blvd, Ste 1-2, North Miami Beach, FL 33162.

We currently rent approximately 5,100 square feet of retail and pharmacy space in North Miami, FL for a monthly rent of approximately \$13,100. The lease expires in December 2020.

We also lease another 3,100 square feet of retail and pharmacy space in Opa-locka, FL for approximately \$5,400 per month; this lease expires in November 2016. On June 5, 2014, PharmCo 780, Inc. withdrew its application for a DEA license. PharmCo 780 is considering filing a new application for licensure on 2015 for reconsideration. The Opa-locka, FL location is currently being used to provide free HIV/STD screenings to the general public.

At December 31, 2013, rental commitments for currently occupied space for the fiscal years of 2014 through 2020 are as follows:

Year	Amount
2015	221,621
2016	229,949
2017	181,170
2018	184,826
Thereafter	397,502
	<u>\$ 1,215,078</u>

#### Note 11. Subsequent Events

On January 9, 2015, the Company issued 5,450,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On January 9, 2015, the Company announced that it was entering a co-joint venture with Caremed Pharmacy, LLC. However, due to circumstances beyond the Company’s control the agreements have yet to consummated.

On January 29, 2015, the Company issued 6,581,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On February 18, 2015, the Company issued 3,197,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On March 2, 2015, the Company issued 3,997,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

On March 11, 2015, the Company issued 5,000,000 shares to Tarpon in consideration of the first tranche of shares per the September 3 court approved Settlement Agreement – 3(a)(10) Transaction.

Subsequent to year end Tarpon liquidated an addition 29,669,000 share for a total consideration of \$558,355.82 which was dispersed as follows: \$198,990.35 available to be disbursed to creditors, \$66,330.12 for Tarpon’s transaction fees and \$95,557.81 which is the remainder of the \$100,000 Debt Acquisition Costs. The \$197,477.54 is awaiting dispersal.

On February 26, 2015, the board of directors approved the increase of authorized stock to be issued to 500,000,000 common shares and 10,000,000 blank check preferred shares. As of April 8, 2014 the Company has issued 90,039,776 shares of its original 100,000,000 authorized, of which 13,926,432 are in treasury. The measure was taken to satisfy the obligations presented by the 3(a)(10) transaction. However, the Company does not currently expect to issue the entire complement of the newly authorized stock for the sole purpose of fulfilling its 3(a)(10) obligations.

On March 18, 2015, the Company filed FORM 15 with the Securities and Exchange Commission thereby withdrawing from certain registration and filing requirements mandated by the Securities Exchange Act of 1934.



## CONTROLS AND PROCEDURES

### *(a) Evaluation of Disclosure and Control Procedures*

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Condensed Interim Consolidated Financial Statements Report, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Company’s disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. As required under Rule 13a-15 of the Exchange Act, the Company’s management, including the Interim Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company has concluded that the Company’s disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

### *(b) Management’s Assessment of Internal Control over Financial Reporting*

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15 of the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements. Management conducted an assessment of the Company’s internal control over financial reporting based on the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. Based on the assessment, management concluded that, as of December 31, 2014, the Company’s internal control over financial reporting was effective based on those criteria.

The Company’s management, including its Interim Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s disclosure controls and procedures and its internal control processes will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that the breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

### *(c) Changes in Internal Control over Financial Reporting*

Other than the conditions noted above, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the periods ended December 31, 2014 and 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial





reporting.

This annual report does not include an attestation report of a registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by a registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permanently exempt smaller reporting companies.

## DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CORPORATE GOVERNANCE

The following table and biographical summaries set forth information, including principal occupation and business experience, about our directors and executive officers at December 31, 2014:

Name	Age	Position
Alan Jay Weisberg (1)	69	Chairman, Director, Chief Financial Officer, Interim Chief Executive Officer
Shital Parikh Mars (2)	29	Director, Chief Operating Officer

(1) Mr. Weisberg was appointed Chief Financial Officer on December 1, 2010. Effective on January 22, 2013, Mr. Weisberg was appointed as Interim Chief Executive Officer and Chairman.

(2) On August 27, 2012, Ms. Parikh Mars was appointed as Chief Operating Officer and as a member of the board of directors.

**Alan Jay Weisberg:** Chief Financial Officer and Director of Progressive Care since October 2010. Mr. Weisberg has more than 30 years of accounting experience and has been the CFO of several publicly traded companies. Mr. Weisberg is a partner in Weisberg, Brause & Company, a Boca Raton, FL accounting firm. Mr. Weisberg has served as an adjunct professor of introductory finance at Florida International University and as an instructor of introductory accounting at the American Institute of Banking. He has also lectured to community groups on tax and estate planning. Mr. Weisberg is a graduate of Penn State University where he earned his BS in Accounting and a graduate of Florida International University where he earned his Masters of Business Administration. Mr. Weisberg is also a registered CPA in the state of Florida. Mr. Weisberg was selected to serve as a director on our Board due to his expertise in public company accounting.

**Shital Parikh Mars:** Ms. Parikh Mars has been a vital consultant to the Company for the past three years. As President and CEO of Spark Financial Consulting, Ms. Parikh Mars provided business development consulting services in which she advised the Company on human resources, financial reporting and transactions, operations, compliance, SEC filings, and investor relations, among other things. Prior to her consulting position, Ms. Parikh Mars was also the Chief Operating Officer of Basis Financial, a boutique investment banking firm engaged by the Company. Her experience in the financial services industry centers on operational management, preparation and submission of financial statements, mergers & acquisitions, securities offerings, SEC reporting, due diligence, compliance, and regulatory audits. Ms. Parikh Mars has a B.S in Business Administration and Accounting and is a member of the international business honor society, Delta Mu Delta. Ms. Parikh Mars currently maintains 8 securities license registrations including the Series 7, Series 66, and Series 24. Her managerial expertise has been invaluable as a consultant and is expected to be a tremendous asset as Chief Operating Officer of the Company.

### Family Relationships

There are no family relationships among our directors and executive officers.

### Directors' Term of Office

Directors will hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by our board of directors and serve at the discretion of the board of directors.

### Committees of the Board of Directors

We have not established any committees, including an audit committee, a compensation committee or a nominating committee. At the present time, we believe that our Board is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting.

## Legal Proceedings

To the best of our knowledge, during the past ten years, none of the following occurred with respect to our present or former director, executive officer, or employee: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of the Company's common stock. Such officers, directors and persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file with the SEC.

Based solely on a review of the copies of such forms that were received by the Company, or written representations from certain reporting persons that no Form 5s were required for those persons, the Company is not aware of any failures to file reports or report transactions in a timely manner during the Company's fiscal year ended December 31, 2014, except that a form 3 has not yet been filed for Messr. Karapetyan with respect to shares received in connection with a debt settlement.

## Code of Ethics

We do not currently have a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer or Controller, or persons performing similar functions. Because we have only limited business operations and four officers and directors, we believe a code of ethics would have limited utility. We intend to adopt such a code of ethics as our business operations expand and we have more directors, officers and employees

## Changes in Nominating Process

There are no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

## ITEM 11. EXECUTIVE COMPENSATION

The table below summarizes all compensation awarded to, earned by, or paid to our executive officers for all services rendered in all capacities to us for the years ended December 31, 2014 and 2013

**SUMMARY COMPENSATION TABLE**

NAME AND PRINCIPAL POSITION	YEAR	SALARY (\$)	BONUS (\$)	OPTION AWARDS (\$)	STOCK AWARDS (\$)	TOTAL (\$)
<b>ALAN JAY WEISBERG (1)</b>	2014	20,308	0	0	0	20,308
<i>INTERIM CEO, CFO</i>	2013	14,769	0	0	5,000 (5)	19,769
<b>SHITAL PARIKH MARS (2)</b>	2014	69,878	0	0	0	69,878
<i>COO</i>	2013	104,589	0	0	0	104,589
<b>AVRAHAM FRIEDMAN (3)</b>	2014	0	0	0	0	0
<i>(FORMER CEO, FORMER CCO)</i>	2013	45,353	0	0	0	45,353
<b>VERNON WATSON (4)</b>	2014	0	0	0	0	0
<i>(FORMER CEO)</i>	2013	9,231	0	0	0	9,231

- Mr. Weisberg was appointed Chief Financial Officer on December 1, 2010. Effective on January 22, 2013, Mr. Weisberg was appointed as Interim Chief Executive Officer and Chairman.
- On August 27, 2012, Ms. Parikh Mars was appointed as Chief Operating Officer.
- Mr. Friedman was appointed as Chief Executive Officer on December 1, 2010. Effective as of August 27, 2012, Mr. Friedman resigned as Chief Executive Officer and was appointed to serve as the Chief Compliance Officer. Effective January 21, 2013, Mr. Friedman resigned as Chairman and, effective February 5, 2013, Mr. Friedman resigned as Chief Compliance Officer.
- Mr. Watson was appointed Chief Executive Officer on August 27, 2012. Effective as of January 17, 2013, Mr. Watson resigned as Chief Executive Officer.
- 150,000 shares was approved by the Board of Directors and awarded to Mr. Weisberg as a bonus in connection with his transition to Interim CEO.

**Outstanding Equity Awards**

**2014 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name (a)	OPTION AWARDS					STOCK AWARDS			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities	Option Exercise Price (\$)(e)	Option Expiration Date (f)	Number of Shares or Units of Stock	Market Value of Shares or Units of Stock	Equity Incentive Plan Awards: Number of	Equity Incentive Plan Awards: Market or

	Exercisable (b)	Un- exercisable (c)	Underlying Unexercised Options (#) (d)			That Have Not Vested (#) (g)	That Have Not Vested (#) (h)	Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#) (j)
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Alan Jay Weisberg Interim Chief Executive Officer, Chief Financial Officer	-	-	-	-	-	-	-	-	-
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Shital Parikh Mars Chief Operating Officer	-	-	-	-	-	-	-	-	-
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### Employment Agreements

On December 1, 2010, the Company entered into an employment agreement with its Chief Financial Officer, Alan Jay Weisberg. Pursuant to the agreement, Mr. Weisberg agreed to serve as the Company's Chief Financial Officer for a term of three years. As consideration for his services, Mr. Weisberg is entitled to a base salary of \$48,000 per year. He is also eligible to receive quarterly grants of restricted shares of the Company's common stock in an amount equal to \$5,000. Such grants of common stock shall be valued based upon the closing bid price of the Company's common stock on the last trading day of each quarter. On January 1, 2012, Mr. Weisberg agreed to a reduction in his base salary to \$24,000. Any deficiency between actual pay and that specified in the employment agreement were forgiven prior to year end and thus not accrued.

On August 27, 2012, the Company and Ms. Parikh Mars entered into a three-year employment agreement, outlining the terms pursuant to which Ms. Parikh Mars shall serve as Chief Operating Officer. Ms. Parikh Mars will receive a grant of 10,000 restricted shares of the Corporation's common stock payable on January 1, 2013. Additionally, the employment agreement provides that she is entitled to receive 20,000 restricted shares of the Corporation's common stock on a quarterly basis beginning October 1, 2013. Ms. Parikh Mars's annual base salary is \$105,000, and she may receive bonuses as determined by the Board of Directors. Concurrently with the execution of this agreement, Ms. Parikh Mars was appointed to the Board of Directors of the Company. Any deficiency between actual



pay and that specified in the employment agreement were forgiven prior to year end and thus not accrued.

### **Consulting Agreements**

On December 1, 2010, the Company entered into a consulting agreement with Spark Financial Consulting, Inc. (“Spark”). Pursuant to the agreement, Spark agreed to provide certain operational and financial support services to the Company for a term of 1 year. As consideration for the services provided under the agreement, Spark is entitled to receive a consulting fee of \$12,000 per month. Spark is also eligible to receive monthly grants of restricted shares of the Company’s common stock in an amount equal to \$25,000 per month. Such grants of common stock shall be valued based upon the closing bid price of the Company’s common stock on the last trading day of each month. On January 2, 2012, Spark waived its eligibility for monthly stock grants. Spark is owned by control shareholder Armen Karapetyan. Through Spark, Mr. Karapetyan provides ongoing management assistance to Company.

### **Compensation of Directors**

All of our directors are employed directly by the Company. Therefore no additional compensation is granted to them for their services as a director.

### **Director Agreements**

Not Applicable.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding beneficial ownership of our common stock as of December 31, 2014, by (i) each person (or group of affiliated persons) who is known by us to own more than five percent of the outstanding shares of our common stock, (ii) each of our directors and executive officers, and (iii) all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. The principal address of each of the stockholders listed below except as indicated is c/o Progressive Care Inc. 901 N Miami Beach Blvd, Ste 1-2, North Miami Beach, FL 33162. We believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them.

Name of Owner	Shares of Common Stock Owned	Percentage of Common Stock Outstanding
Armen Karapetyan	16,532,016	35.54%
Avraham Friedman	6,010,540	12.92%
Alan Jay Weisberg	627,091	1.35%
Shital Parikh Mars	0	0.00%
All Officers, Directors, and Control Shareholders as a Group (3 persons)	23,169,647	49.81%

**Changes in Control**

We are not aware of any arrangements that may result in “changes in control” as that term is defined by the provisions of Item 403(c) of Regulation S-K.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

On December 1, 2010, the Company entered into a consulting agreement with Spark Consulting, Inc. (“Spark”), a firm in which Mr. Armen Karapetyan, a related party, is the owner. Pursuant to this agreement, as amended January 1, 2012, the Company pays Spark \$12,000 per month in cash. Spark is also eligible to receive monthly grants of restricted shares of the Company’s common stock in an amount equal to \$25,000 per month. On January 2, 2012, Spark waived its eligibility for monthly stock grants.

**Director Independence**

We currently have two directors serving on our Board of Directors, Mr. Weisberg and Ms. Parikh Mars. We are not a listed issuer and, as such, are not subject to any director independence standards. Using the definition of independence set forth in the rules of the AICPA, none of our directors would be considered independent directors of the Company.



FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL  
CERTIFICATE

I, **Alan Jay Weisberg**, *Chief Financial Officer of Progressive Care, Inc.*, certify the following:

1. **Review:** I have reviewed the financial statements and interim MD&A (together, the "filings") of **Progressive Care, Inc.** (the "issuer") for the period ended **December 31, 2014**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it 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 the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is **Internal Control over Finance Reporting – Guidance for Smaller Public Companies published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)**.

- 5.2 *ICFR – material weakness relating to design: N/A*
- 5.3 *Limitation on scope of design: N/A*
6. ***Reporting changes in ICFR:*** The issuer has disclosed in its MD&A any change in the issuer’s ICFR that occurred during the period beginning on **January 1, 2014** and ended on **December 31, 2014** that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: **April 15, 2015**

*s/Alan Jay Weisberg*  
Alan Jay Weisberg  
Chief Financial Officer

FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL  
CERTIFICATE

I, **Alan Jay Weisberg**, *Interim Chief Executive Officer of Progressive Care, Inc.*, certify the following:

1. **Review:** I have reviewed the financial statements and interim MD&A (together, the "filings") of **Progressive Care, Inc.** (the "issuer") for the period ended **December 31, 2014**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it 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 the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is **Internal Control over Finance Reporting – Guidance for Smaller Public Companies published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)**.

- 5.2 *ICFR – material weakness relating to design: N/A*
- 5.3 *Limitation on scope of design: N/A*
6. ***Reporting changes in ICFR:*** The issuer has disclosed in its MD&A any change in the issuer’s ICFR that occurred during the period beginning on **January 1, 2014** and ended on **December 31, 2014** that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: **April 15, 2015**

*s/Alan Jay Weisberg*

Alan Jay Weisberg

Interim Chief Executive Officer