

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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from ____ to ____

Commission file number: 001-38448



EDISON NATION, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction
of Incorporation or Organization)

909 New Brunswick Ave
Phillipsburg, New Jersey
(Address of Principal Executive Offices)

82-2199200
(I.R.S. Employer
Identification No.)

08865
(Zip Code)

(610) 829-1039

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller Reporting Company
Emerging Growth Company

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

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

Yes No

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	EDNT	Nasdaq

As of May 15, 2019, there were 5,692,830 shares of the registrant's common stock outstanding.

EDISON NATION, INC.
(formerly known as Xspand Products Lab, Inc.)

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USE OF MARKET AND INDUSTRY DATA

This Quarterly Report on Form 10-Q includes market and industry data that we have obtained from third-party sources, including industry publications, as well as industry data prepared by our management on the basis of its knowledge of and experience in the industries in which we operate (including our management's estimates and assumptions relating to such industries based on that knowledge). Management has developed its knowledge of such industries through its experience and participation in these industries. While our management believes the third-party sources referred to in this Quarterly Report on Form 10-Q are reliable, neither we nor our management have independently verified any of the data from such sources referred to in this Quarterly Report on Form 10-Q or ascertained the underlying economic assumptions relied upon by such sources. Furthermore, internally prepared and third-party market prospective information, in particular, are estimates only and there will usually be differences between the prospective and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Also, references in this Quarterly Report on Form 10-Q to any publications, reports, surveys or articles prepared by third parties should not be construed as depicting the complete findings of the entire publication, report, survey or article. The information in any such publication, report, survey or article is not incorporated by reference in this Quarterly Report on Form 10-Q.

Solely for convenience, we refer to trademarks in this Quarterly Report on Form 10-Q without the ® or the ™ or symbols, but such references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights to our own trademarks. Other service marks, trademarks and trade names referred to in this Quarterly Report on Form 10-Q, if any, are the property of their respective owners, although for presentational convenience we may not use the ® or the ™ symbols to identify such trademarks.

OTHER PERTINENT INFORMATION

Unless the context otherwise indicates, when used in this Quarterly Report on Form 10-Q, the terms "Edison Nation" "we," "us," "our," the "Company" and similar terms refer to Edison Nation, Inc., a Nevada corporation formerly known as Xspand Products Lab, Inc. and Idea Lab Products, Inc., and all of our subsidiaries and affiliates.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the period ended March 31, 2019 (the "Quarterly Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements relate to future events (including, without limitation, the terms, timing and closing of our proposed acquisitions or our future financial performance. We have attempted to identify forward-looking statements by using terminology such as "anticipates," "believes," "expects," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions; uncertainties and other factors may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Our expectations are as of the date this Quarterly Report is filed, and we do not intend to update any of the forward-looking statements after the date this Quarterly Report is filed to confirm these statements to actual results, unless required by law.

You should not place undue reliance on forward looking statements. The cautionary statements set forth in this Quarterly Report identify important factors which you should consider in evaluating our forward-looking statements. These factors include, among other things:

- Our ability to effectively execute our business plan;
- Our ability to manage our expansion, growth and operating expenses;
- Our ability to protect our brands and reputation;
- Our ability to repay our debts;
- Our ability to rely on third-party suppliers outside of the United States;
- Our ability to evaluate and measure our business, prospects and performance metrics;
- Our ability to compete and succeed in a highly competitive and evolving industry;
- Our ability to respond and adapt to changes in technology and customer behavior;
- Risks in connection with completed or potential acquisitions, dispositions and other strategic growth opportunities and initiatives;
- Risks related to the anticipated timing of the closing of any potential acquisitions; and
- Risks related to the integration with regards to potential or completed acquisitions.

This Quarterly Report on Form 10-Q also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other industry data. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We have not independently verified the statistical and other industry data generated by independent parties and contained in this Quarterly Report and, accordingly, we cannot guarantee their accuracy or completeness, though we do generally believe the data to be reliable. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including, but not limited to, the possibility that we may fail to preserve our expertise in consumer product development; that existing and potential distribution partners may opt to work with, or favor the products of, competitors if our competitors offer more favorable products or pricing terms; that we may be unable to maintain or grow sources of revenue; that we may be unable maintain profitability; that we may be unable to attract and retain key personnel; or that we may not be able to effectively manage, or to increase, our relationships with customers; that we may have unexpected increases in costs and expenses. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

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Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 719,446	\$ 2,052,731
Accounts receivable, net	2,653,408	1,877,351
Inventory	1,361,342	923,707
Prepaid expenses and other current assets	1,407,760	611,695
Income tax receivable	82,568	
Total current assets	<u>6,224,524</u>	<u>5,465,484</u>
Property and equipment, net	1,034,281	998,863
Right of use assets – operating leases, net	873,110	-
Intangible assets, net	12,423,885	12,687,731
Goodwill	9,736,510	9,736,510
Total assets	<u>\$ 30,292,310</u>	<u>\$ 28,888,588</u>
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 6,360,102	\$ 5,519,159
Accrued expenses and other current liabilities	1,646,776	1,135,551
Deferred revenues	175,956	175,956
Current portion of operating lease liabilities	263,532	-
Income tax payable	-	129,511
Line of credit, net of debt issuance costs of \$27,252 and \$31,145, respectively	520,662	531,804
Current portion of long-term debt, net of debt issuance costs of \$129,471 and \$0, respectively	744,255	313,572
Current portion of long-term debt – related parties	967,576	932,701
Due to related party	97,996	140,682
Total current liabilities	<u>10,776,855</u>	<u>8,878,936</u>
Contingent consideration	520,000	520,000
Operating lease liabilities, net of current portion	613,809	-
Long-term senior convertible debt – related parties, net of debt discount of \$441,667 and \$466,667 related to the conversion feature, respectively	986,494	961,494
Long-term debt, net of current portion	53,198	56,688
Long-term debt – related parties, net of current portion	2,469,352	2,531,490
Deferred tax liability	341	341
Total liabilities	<u>15,420,049</u>	<u>12,948,949</u>
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, \$0.001 par value, 250,000,000 shares authorized; 5,680,330 and 5,654,830 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	5,680	5,655
Additional paid-in-capital	20,859,158	20,548,164
Accumulated deficit	<u>(7,001,046)</u>	<u>(5,565,756)</u>
Total stockholders' equity attributable to Edison Nation, Inc.	13,863,792	14,988,063
Noncontrolling interests	1,008,469	951,576
Total stockholders' equity	<u>14,872,261</u>	<u>15,939,639</u>
Total liabilities and stockholders' equity	<u>\$ 30,292,310</u>	<u>\$ 28,888,588</u>

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

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2019	2018
Revenues, net	\$ 5,738,534	\$ 3,431,330
Cost of revenues	3,945,558	2,328,994
Gross profit	1,792,976	1,102,336
Operating expenses:		
Selling, general and administrative	3,049,188	2,552,737
Operating (loss) income	(1,256,212)	(1,450,401)
Other (expense) income:		
Rental income	25,704	25,704
Interest expense, net	(124,694)	(87,535)
Total other (expense) income	(98,990)	(61,831)
Loss before income taxes	(1,355,202)	(1,512,232)
Income tax expense	23,195	65,073
Net loss	\$ (1,378,397)	\$ (1,577,305)
Net income attributable to noncontrolling interests	56,893	-
Net loss attributable to Edison Nation, Inc.	(1,435,290)	(1,577,305)
Net loss per share - basic and diluted	\$ (0.25)	\$ (0.53)
Weighted average number of common shares outstanding – basic and diluted	5,661,380	3,000,000

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

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2018	5,654,830	5,655	20,548,164	(5,565,756)	951,576	15,939,639
Issuance of common stock to note holders	15,000	15	74,085	-	-	74,100
Issuance of common stock to vendors for services	10,500	10	52,490	-	-	52,500
Stock-based compensation	-	-	184,419	-	-	184,419
Net loss	-	-	-	(1,435,290)	56,893	(1,378,397)
Balance, March 31, 2019	<u>5,680,330</u>	<u>\$ 5,680</u>	<u>\$ 20,859,158</u>	<u>\$ (7,001,046)</u>	<u>\$ 1,008,469</u>	<u>\$ 14,872,261</u>
Balance, December 31, 2017	3,000,000	\$ 3,000	\$ -	\$ (235,630)	\$ -	(232,630)
Stock-based compensation	-	-	1,721,250	-	-	1,721,250
Net loss	-	-	-	(1,577,305)	-	(1,577,305)
Balance, March 31, 2018	<u>3,000,000</u>	<u>3,000</u>	<u>1,721,250</u>	<u>(1,812,935)</u>	<u>-</u>	<u>(88,685)</u>

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

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2019	2018
Cash Flow from Operating Activities		
Net loss attributable to Edison Nation, Inc.	\$ (1,435,290)	\$ (1,577,305)
Net income attributable to noncontrolling interests	56,893	-
Net loss	(1,378,397)	(1,577,305)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	301,383	39,631
Amortization of financing costs	56,022	37,579
Stock-based compensation	362,419	1,721,250
Amortization of right of use asset	77,704	-
Changes in assets and liabilities:		
Accounts receivable	(776,057)	(448,512)
Inventory	(437,635)	16,485
Prepaid expenses and other current assets	(1,004,133)	(17,332)
Accounts payable	840,943	491,236
Accrued expenses and other current liabilities	381,714	104,541
Operating lease liabilities	(73,473)	-
Due from related party	(42,686)	(127,689)
Net cash (used in) provided by operating activities	(1,692,196)	239,884
Cash Flows from Investing Activities		
Purchases of property and equipment	(72,955)	(16,403)
Net cash used in investing activities	(72,955)	(16,403)
Cash Flows from Financing Activities		
Borrowings under long-term debt	500,000	645,000
Repayments under line of credit	(15,035)	-
Repayments under long-term debt	(3,336)	(44,444)
Repayments under long-term debt – related parties	(27,263)	(28,243)
Fees paid for financing costs	(22,500)	(205,560)
Net cash provided by financing activities	431,866	366,753
Net increase (decrease) in cash and cash equivalents	(1,333,285)	590,234
Cash and cash equivalents - beginning of period	2,052,731	557,268
Cash and cash equivalents - end of period	\$ 719,446	\$ 1,147,502
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 52,640	\$ 34,757
Income taxes	\$ 235,275	\$ -
Noncash investing and financing activity:		
Shares issued to note holders	\$ 74,100	\$ -

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

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation and Nature of Operations

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not contain all information and footnotes required by GAAP for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of March 31, 2019 and the results of operations, changes in stockholders’ equity, and cash flows for the periods presented. The results of operations for the three ended March 31, 2019 are not necessarily indicative of the operating results for the full fiscal year for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. The Company’s accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2018, and updated, as necessary, in this Quarterly Report on Form 10-Q.

As used herein, the terms the “Company,” “Edison Nation” “we,” “us,” “our” and similar refer to Edison Nation, Inc., a Nevada corporation incorporated on July 18, 2017 under the laws of the State of Nevada as Idea Lab X Products, Inc. and also formerly known as Xspand Products Lab, Inc. prior to its name change on September 12, 2018, and/or its wholly-owned and majority-owned operating subsidiaries, and/or where applicable, its management.

Edison Nation is a vertically-integrated, end-to-end, consumer product research & development, manufacturing, sales and fulfillment company. The Company’s proprietary web-enabled platform provides a low risk, high reward platform and process to connect innovators of new product ideas with potential licensees.

As of March 31, 2019, Edison Nation, Inc. had five wholly-owned subsidiaries: S.R.M. Entertainment Limited (“SRM”), Ferguson Containers, Inc. (“Fergco”), CBAV1, LLC (“CB1”), Pirasta, LLC and Edison Nation Holdings, LLC. Edison Nation, Inc. owns 72.15% of Cloud B, Inc. and 50% of Best Party Concepts, LLC. Edison Nation Holdings, LLC is the single member of Edison Nation, LLC and Everyday Edisons, LLC. Edison Nation, LLC is the single member of Safe TV Shop, LLC. Cloud B, Inc. owns 100% of Cloud B UK and Cloud B Australia.

Liquidity

For the three months ended March 31, 2019, our operations lost approximately \$1,300,000 of which approximately \$700,000 was non-cash and approximately \$400,000 was related to transaction costs and other non-recurring items.

At March 31, 2019, we had total current assets of approximately \$6,200,000 and current liabilities of approximately \$10,800,000 resulting in negative working capital of approximately \$4,600,000, of which approximately \$3,800,000 related to unsecured trade payables assumed in our Cloud B acquisition. In February 2019, our consolidating subsidiary, CBAV1, LLC, foreclosed on the promissory note it held that was secured by Cloud B, Inc.’s assets making any payments of such Cloud B trade payables unlikely. At March 31, 2019, we had total assets of approximately \$30,300,000 and total liabilities of approximately \$15,400,000 resulting in stockholders’ equity of approximately \$14,900,000.

The foregoing factors raised concerns about the Company’s ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company’s ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations from the sale of its products. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management has considered possible mitigating factors within our management plan on our ability to continue for at least a year from the date these financial statements are filed. The following items are management plans to alleviate any going concern issues:

- Raise further capital through the sale of additional equity;
- Borrow money under debt securities;
- The deferral of payments to related party debt holders for both principal of approximately \$1,000,000 and related interest expense;
- Cost saving initiatives related to synergies and the elimination of redundant costs of approximately \$500,000; and
- Possible sale of certain brands to other manufacturers.

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Edison Nation, Inc. and its wholly-owned and majority owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the financial statements.

The Company's significant estimates used in these financial statements include, but are not limited to, accounts receivable reserves, the valuation allowance related to the Company's deferred tax assets, the recoverability and useful lives of long-lived assets, debt conversion features, stock-based compensation, certain assumptions related to the valuation of the reserved shares and the assets acquired and liabilities assumed related to the Company's acquisitions. Certain of the Company's estimates could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company's estimates and could cause actual results to differ from those estimates.

Cash and Cash Equivalents

The Company has cash on deposit in several financial institutions which, at times, may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Company has not experienced losses in such accounts and periodically evaluates the creditworthiness of its financial institutions. The Company reduces its credit risk by placing its cash and cash equivalents with major financial institutions. The Company had approximately \$448,000 uninsured at March 31, 2019 of which approximately \$329,000 was held in foreign bank accounts not covered by FDIC insurance limits as of March 31, 2019.

Accounts Receivable

As of March 31, 2019, the following customers represented more than 10% of total accounts receivable:

	March 31, 2019
Customer A	17%
Customer B	12%

Inventory

Inventory is recorded at the lower of cost or net realizable value on a first-in, first-out basis. The Company reduces the carrying value of inventories for those items that are potentially excess, obsolete, or slow moving based on changes in customer demand, technology developments, or other economic factors.

Revenue Recognition

Generally, the Company considers all revenues as arising from contracts with customers. Revenue is recognized based on the five step process outlined in the Accounting Standards Codification ("ASC") 606:

Step 1 – Identify the Contract with the Customer – A contract exists when (a) the parties to the contract have approved the contract and are committed to perform their respective obligations, (b) the entity can identify each party's rights regarding the goods or services to be transferred, (c) the entity can identify the payment terms for the goods or services to be transferred, (d) the contract has commercial substance and it is probably that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

Step 2 – Identify Performance Obligations in the Contract – Upon execution of a contract, the Company identifies as performance obligations each promise to transfer to the customer either (a) goods or services that are distinct, or (b) a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. To the extent a contract includes multiple promised goods or services, the Company must apply judgement to determine whether the goods or services are capable of being distinct within the context of the contract. If these criteria are not met, the goods or services are accounted for as a combined performance obligation.

Step 3 – Determine the Transaction Price – When (or as) a performance obligation is satisfied, the Company shall recognize as revenue the amount of the transaction price that is allocated to the performance obligation. The contract terms are used to determine the transaction price. Generally, all contracts include fixed consideration. If a contract did include variable consideration, the Company would determine the amount of variable consideration that should be included in the transaction price based on expected value method. Variable consideration would be included in the transaction price, if in the Company’s judgement, it is probable that a significant future reversal of cumulative revenue under the contract would not occur.

Step 4 – Allocate the Transaction Price – After the transaction price has been determined, the next step is to allocate the transaction price to each performance obligation in the contract. If the contract only has one performance obligation, the entire transaction price will be applied to that obligation. If the contract has multiple performance obligations, the transaction price is allocated to the performance obligations based on the relative standalone selling price (SSP) at contract inception.

Step 5 – Satisfaction of the Performance Obligations (and Recognize Revenue) – Revenue is recognized when (or as) goods or services are transferred to a customer. The Company satisfies each of its performance obligations by transferring control of the promised good or service underlying that performance obligation to the customer. Control is the ability to direct the use of, and obtain substantially all of the remaining benefits from an asset. It includes the ability to prevent other entities from directing the use of, and obtaining the benefits from an asset. Indicators that control has passed to the customer include: a present obligation to pay; physical possession of the asset; legal title; risks and rewards of ownership; and acceptance of the asset(s). Performance obligations can be satisfied at a point in time or over time.

Substantially all of the Company’s revenues continue to be recognized when control of the goods are transferred to the customer, which is upon shipment of the finished goods to the customer. All sales have fixed pricing and there are currently no material variable components included in the Company’s revenue. Additionally, the Company will issue credits for defective merchandise, historically these credits for defective merchandise have not been material. Based on the Company’s analysis of the new revenue standards, revenue recognition from the sale of finished goods to customers, which represents substantially all of the Company’s revenues, was not impacted by the adoption of the new revenue standards.

Disaggregation of Revenue

The Company’s primary revenue streams include the sale and/or licensing of consumer goods and packaging materials for innovative products. The Company’s licensing business is not material and has not been separately disaggregated for segment purposes. The disaggregated Company’s revenues for the three months ended March 31, 2019 and 2018 was as follows:

	For the Three Months Ended March 31,	
	2019	2018
Revenues:		
Product sales	\$ 5,637,350	\$ 3,431,330
Service revenues	25,597	-
Licensing revenues	75,587	-
Total revenues, net	<u>\$ 5,738,534</u>	<u>\$ 3,431,330</u>

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

For the three months ended March 31, 2019 and 2018, the following customer represented more than 10% of total net revenues:

	For the Three Months Ended March 31,	
	2019	2018
Customer A	23%	31%

For the three months ended March 31, 2019 and 2018, the following geographical regions represented more than 10% of total net revenues:

	For the Three Months Ended March 31,	
	2019	2018
North America	77%	83%
Asia-Pacific	*	13%
Europe	19%	*

* Region did not represent greater than 10% of total net revenue.

Fair Value of Financial Instruments

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

The carrying amounts of the Company’s financial instruments, such as cash, accounts receivable, accounts payable, accrued expenses and other current liabilities approximate fair values due to the short-term nature of these instruments. The carrying amount of the Company’s notes payable approximates fair value because the effective yields on these obligations, which include contractual interest rates, taken together with other features such as concurrent issuance of warrants, are comparable to rates of returns for instruments of similar credit risk. The loan held for investment was acquired at fair value, which resulted in a discount.

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

As of March 31, 2019, the book value and estimated fair value of the Company's level 3 instruments was as follows:

	March 31, 2019	
	Book Value	Estimated Fair Value
Contingent consideration	\$ (520,000)	\$ (520,000)

The following changes in level 3 instruments for the three months ended March 31, 2019 are presented below:

	Contingent Consideration – Earnout
Balance, December 31, 2018	\$ (520,000)
Change in fair value	-
Balance, March 31, 2019	\$ (520,000)

There were no changes to the underlying assumptions used in determining the fair value of the contingent consideration liability for the three months ended March 31, 2019.

Foreign Currency Translation

The Company uses the United States dollar as its functional and reporting currency since the majority of the Company's revenues, expenses, assets and liabilities are in the United States. Assets and liabilities in foreign currencies are translated using the exchange rate at the balance sheet date, while revenue and expense accounts are translated at the average exchange rates prevailing during the year. Equity accounts are translated at historical exchange rates. Gains and losses from foreign currency transactions and translation for the three months ended March 31, 2019 and 2018 and the cumulative translation gains and losses as of March 31, 2019 and December 31, 2018 were not material.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

Net Earnings or Loss per Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number vested of common shares, plus the net impact of common shares (computed using the treasury stock method), if dilutive, resulting from the exercise of dilutive securities. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. As of March 31, 2018, there were no common stock equivalents outstanding. As of March 31, 2019, the Company excluded the common stock equivalents summarized below, which entitle the holders thereof to ultimately acquire shares of common stock, from its calculation of earnings per share, as their effect would have been anti-dilutive.

	March 31, 2019
Selling Agent Warrants	65,626
Shares reserved in exchange for the cancellation of certain non-voting membership interest in Edison Nation Holdings, LLC	990,000
Options	290,000
Convertible shares under notes payable	285,632
Shares to be issued to innovator	12,500
Total	<u>1,643,758</u>

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. This accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. Additionally, this accounting guidance requires a modified retrospective transition approach for all leases existing at, or entered into after the date of initial application, with an option to use certain transition relief. In July 2018, the FASB issued a practical expedient that would allow entities the option to apply the provisions of the new lease guidance at the effective date of adoption without adjusting the comparative periods presented.

The Company has elected the “package of practical expedients” and as a result is not required to reassess its prior accounting conclusions about lease identification, lease classification and initial direct costs for lease contracts that exist as of the transition date. However, the Company has not elected the use of hindsight for determining the reasonably certain lease term.

The new lease standard also provides practical expedients and policy elections for an entity’s ongoing accounting. The Company has elected the practical expedient to not separate lease and non-lease components for all of its leases. The Company has elected the short-term lease recognition exemption, which results in no recognition of right-of-use assets and lease liabilities for existing short-term leases at transition.

Upon adoption on January 1, 2019, the Company recognized right of use assets for operating leases and operating lease liabilities that have not previously been recorded. The lease liability for operating leases is based on the net present value of future minimum lease payments. The right of use asset for operating leases is based on the lease liability. The Company did not have any deferred rent or material prepaid rent.

The cumulative effect of initially applying the new lease accounting standard as of January 1, 2019 is as follows:

	January 1, 2019	Cumulative Effect Adjustment	January 1, 2019, as adjusted
Assets:			
Right of use assets – operating leases	\$ -	\$ 943,997	\$ 943,997
Liabilities:			
Current portion of operating lease liabilities	\$ -	\$ 261,866	\$ 261,866
Operating lease liabilities, net of current portion	\$ -	\$ 682,131	\$ 682,131

The adoption of the standard did not result in any material changes to the recognition of operating lease expenses in the Company’s consolidated statements of operations.

In June 2018, the FASB issued an amendment to the accounting guidance related to accounting for employee share-based payments which clarifies that an entity should recognize excess tax benefits in the period in which the amount of the deduction is determined. This amendment is effective for annual periods beginning after December 15, 2018. We have adopted this accounting guidance effective January 1, 2019, with no impact on our financial statements as there were no excess tax benefits to be recognized due to our net operating losses.

In August 2018, the FASB issued new accounting guidance that addresses the accounting for implementation costs associated with a hosted service. The guidance provides that implementation costs be evaluated for capitalization using the same criteria as that used for internal-use software development costs, with amortization expense being recorded in the same income statement expense line as the hosted service costs and over the expected term of the hosting arrangement. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The guidance will be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We have not yet adopted this accounting guidance and are currently evaluating the effect this accounting guidance will have on our financial statements.

In August 2018, the FASB issued new accounting guidance that eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, an entity will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Since this accounting guidance only revises disclosure requirements, it will not have a material impact on the Company’s consolidated financial statements.

In October 2018, the FASB issued new accounting guidance for Variable Interest Entities, which requires indirect interests held through related parties in common control arrangements be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The guidance is effective for the Company’s interim and annual reporting periods during the year ending December 31, 2020. Early adoption is permitted. The Company currently does not believe that the adoption of this accounting guidance will have a material impact on its consolidated financial statements and related disclosures.

Edison Nation, Inc. (formerly known as Xspand Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies — (Continued)

Subsequent Events

The Company has evaluated subsequent events through the date which the financial statements were issued. Based upon such evaluation, except for items described in Note 10, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.

Segment Reporting

The Company uses “the management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. The Company’s chief operating decision maker is the Chairman and Chief Executive Officer (“CEO”) of the Company, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company deploys resources on a consolidated level to all brands of the Company and therefore the Company only identifies one reportable operating segment with multiple product offerings.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Acquisition

On September 4, 2018, the Company completed the acquisition of all of the voting membership interest of Edison Nation Holdings, LLC for a total purchase price of \$12,820,978 comprising of (i) \$950,000 cash, (ii) the assumption of the remaining balance of the senior convertible debt through the issuance to the holders of 4%, 5-year senior convertible notes (the “New Convertible Notes”), in the aggregate principal and interest amount of the sum of \$1,428,161, less debt discount of \$500,000 for the approximate fair value of the conversion feature, which are convertible into approximately 285,632 shares of the Company’s common stock, at the option of the holder of such New Convertible Notes (subject to certain adjustments as provided in the Membership Interest Purchase Agreement (the “Purchase Agreement”) among the Company and Edison Nation Holdings, LLC and Edison Nation Holdings, LLC members dated June 29, 2018 and the terms of the New Convertible Notes), (iii) the reservation of 990,000 shares of the Company’s common stock that may be issued in exchange for the redemption of certain non-voting membership interests of EN that will be created specifically in connection with the transaction contemplated by the Purchase Agreement (which exchange obligations may be instead satisfied in cash instead of shares of common stock, in the Company’s sole discretion), and (iv) the issuance of 557,084 shares or \$3,760,317 of the Company’s common stock in full satisfaction of the indebtedness represented by promissory notes payable by EN to Venture Six, LLC and Wesley Jones.

On October 29, 2018, the Company completed the acquisition of 72.15% of the outstanding capital stock of Cloud B, Inc. in exchange for 489,293 shares of restricted common stock of the Company. In addition, the Company entered into an Earn Out Agreement with the Cloud B Sellers, whereby, beginning in 2019, the Company will pay the Cloud B Sellers an annual amount equal to 8% multiplied by the annual gross sales of Cloud B, as reduced by the total gross sales generated by Cloud B in 2018. The Earn Out Agreement expires on December 31, 2021.

On December 31, 2018, the Company completed the acquisition of all of the voting membership interest of Pirasta, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$470,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

On December 31, 2018, the Company completed the acquisition of 50% of the voting membership interest of Best Party Concepts, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$500,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

NL Penn Capital, LP is owned by Chris Ferguson, our Chairman and Chief Executive Officer.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Acquisition — (Continued)

The following represents the pro forma consolidated income statement as if the acquisitions had been included in the consolidated results of the Company for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018
Revenues, net	\$ 5,380,494
Cost of revenues	3,227,171
Gross profit	<u>2,153,323</u>
Operating expenses:	
Selling, general and administrative	3,729,957
Operating loss	<u>(1,576,634)</u>
Other (expense) income:	
Other (expense) income	(101,113)
Loss before income taxes	<u>(1,677,747)</u>
Income tax expense	65,073
Net loss	\$ (1,742,820)
Net loss attributable to noncontrolling interests	<u>(29,613)</u>
Net loss attributable to Edison Nation, Inc.	<u>(1,713,207)</u>
Net loss per share - basic and diluted	\$ (0.42)
Weighted average number of common shares outstanding – basic and diluted	<u>4,046,377</u>

Note 4 — Inventory

As of March 31, 2019 and December 31, 2018, inventory consisted of the following:

	March 31, 2019	December 31, 2018
Raw materials	\$ 56,045	\$ 48,576
Finished goods	1,305,297	875,131
Total inventory	<u>\$ 1,361,342</u>	<u>\$ 923,707</u>

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5 — Intangible assets, net

As of March 31, 2019, intangible assets consisted of the following:

			Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite lived intangible assets:					
Customer relationships	15 years	14.8 years	\$ 4,270,000	\$ 126,056	\$ 4,143,944
Developed technology	7 years	6.7 years	\$ 3,800,000	290,476	3,509,524
Membership network	7 years	6.7 years	\$ 1,740,000	145,000	1,595,000
Non-compete agreements	2 years	1.7 years	\$ 50,000	14,583	35,417
Total finite lived intangible assets			\$ 9,860,000	\$ 576,115	\$ 9,283,885
Indefinite lived intangible assets:					
Trademarks and tradenames	Indefinite		\$ 3,140,000	-	\$ 3,140,000
Total indefinite lived intangible assets			\$ 3,140,000	\$ -	\$ 3,140,000
Total intangible assets			\$ 13,000,000	\$ 576,115	\$ 12,423,885

As of December 31, 2018, intangible assets consisted of the following:

			Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite lived intangible assets:					
Customer relationships	15 years	14.8 years	\$ 4,270,000	\$ 61,555	\$ 4,208,445
Developed technology	7 years	6.7 years	\$ 3,800,000	159,524	3,640,476
Membership network	7 years	6.7 years	\$ 1,740,000	82,857	1,657,143
Non-compete agreements	2 years	1.7 years	\$ 50,000	8,333	41,667
Total finite lived intangible assets			\$ 9,860,000	\$ 312,269	\$ 9,547,731
Indefinite lived intangible assets:					
Trademarks and tradenames	Indefinite		\$ 3,140,000	-	\$ 3,140,000
Total indefinite lived intangible assets			\$ 3,140,000	\$ -	\$ 3,140,000
Total intangible assets			\$ 13,000,000	\$ 312,269	\$ 12,687,731

The estimated future amortization of intangibles subject to amortization at December 31, 2018 was as follows:

For the Years Ended December 31,	Amount
2019	\$ 1,101,095
2020	1,092,762
2021	1,076,095
2022	1,076,095
2023	1,076,095
Thereafter	4,125,588
	<u>9,547,730</u>

Amortization expense for the three months ended March 31, 2019 and 2018 was \$263,846 and \$0, respectively.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 — Debt

As of March 31, 2019 and December 31, 2018, debt consisted of the following:

	March 31, 2019	December 31, 2018
Line of credit:		
Asset backed line of credit	\$ 547,914	\$ 561,804
Debt issuance costs	(27,252)	(30,000)
Total line of credit	520,662	531,804
Long-term senior convertible debt:		
Senior convertible notes payable	1,428,161	1,428,161
Debt issuance costs	(441,667)	(466,667)
Total long-term senior convertible debt	986,494	961,494
Long-term debt:		
Notes payable	926,924	370,250
Debt issuance costs	(129,471)	-
Total long-term debt	797,453	370,250
Less: current portion of long-term debt	(744,255)	(313,572)
Noncurrent portion of long-term debt	53,198	56,688
Long-term debt – related parties:		
Notes payable	3,436,928	3,464,191
Less: current portion of long-term debt – related parties	(967,576)	(932,701)
Noncurrent portion of long-term debt – related parties	\$ 2,469,352	\$ 2,531,490

Notes Payable in 2019

On March 6, 2019, Edison Nation, Inc. (the “Company”) entered into a securities purchase agreement (the “SPA”) with an accredited investor (the “Investor”) pursuant to which the Investor purchased a 2% unsecured, senior convertible promissory note (the “Note”) from the Company. The Note was in the amount of \$560,000 with an original issue discount of \$60,000. The Company issued 15,000 shares of its common stock (“Common Stock”) valued at \$74,100 based on the share price on the date of issuance to the Investor as additional consideration for the purchase of the Note. Under the terms of the SPA, the Investor will have piggyback registration rights in the event the Company files a Form S-1 or Form S-3 within six months from March 6, 2019, as well as a pro rata right of first refusal in respect of participation in any debt or equity financings undertaken by the Company during the 18 months following March 6, 2019. The Company is also subject to certain customary negative covenants under the SPA, including but not limited to, the requirement to maintain its corporate existence and assets subject to certain exceptions, and to not to make any offers or sales of any security under circumstances that would have the effect of establishing rights or otherwise benefitting other investors in a manner more favorable in any material respect than those rights and benefits established in favor of the Investor under the terms of the SPA and the Note. The maturity date of the Note is six months from March 6, 2019. All principal amounts and the interest thereon are convertible into shares Common Stock only in the event that an Event of Default occurs.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 — Debt — (Continued)

The scheduled maturities of the debt for the next five years as of December 31, 2018, are as follows:

For the Years Ended December 31,	Amount
2019	\$ 1,778,077
2020	239,461
2021	254,230
2022	704,296
2023	1,420,190
Thereafter	1,428,162
	<u>5,824,416</u>
Less: debt discount	(496,667)
	<u>\$ 5,327,749</u>

For the three months ended March 31, 2019, interest expense was \$125,073 of which \$80,262 was related party interest expense. For the three months ended March 31, 2018, interest expense was \$87,535 of which \$59,380 was related party interest expense.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Related Party Transactions

NL Penn Capital, LP and SRM Entertainment Group LLC

On December 31, 2018, the Company completed the acquisition of all of the voting membership interest of Pirasta, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$470,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

On December 31, 2018, the Company completed the acquisition of 50% of the voting membership interest of Best Party Concepts, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$500,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

As of March 31, 2019 and December 31, 2018, due to related party consists of net amounts due to SRM Entertainment Group LLC (“SRM LLC”) and NL Penn Capital, LP (“NL Penn”), the majority owner of both, which are owned by Chris Ferguson, our Chairman and Chief Executive Officer. The amount due to related parties is related to the acquisitions of Pirasta, LLC and Best Party Concepts, LLC offset by operating expenses that were paid by SRM and Edison Nation on behalf of SRM LLC and NL Penn. As of March 31, 2019 and December 31, 2018, the net amount due to related parties was \$97,996 and \$140,682, respectively. Such amounts are due currently.

Service Agreement

On August 1, 2018, the Company entered into a one-year letter agreement with Enventys Partners, LLC, a North Carolina limited liability company (“Enventys”), whereby Enventys agreed to provide services to the Company as an independent contractor in the areas of product development and crowdfunding campaign marketing. During the term of the Enventys Agreement, the Company shall pay Enventys a fixed fee of \$15,000 per month for product development assistance, including design research, mechanical engineering and quality control planning. Depending on the success of each campaign, the Company may also pay Enventys a commission of up to ten percent of the total funds raised in the applicable campaign. Louis Foreman, who has been appointed to the Company’s board of directors, is also the chief executive officer and the largest equity holder of Enventys. We incurred fees of approximately \$72,000 related to the services performed by Enventys for the three months ended March 31, 2019.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 8 — Commitments and Contingencies

Operating Leases

The Company has entered into non-cancellable operating leases for office, warehouse, and distribution facilities, with original lease periods expiring through 2021. In addition to minimum rent, certain of the leases require payment of real estate taxes, insurance, common area maintenance charges, and other executory costs. Differences between rent expense and rent paid are recognized as adjustments to operating lease right-of-use assets on the consolidated balance sheets.

As of March 31, 2019, the Company recorded operating lease liabilities of \$877,341 and right of use assets for operating leases of \$873,110. During the three months ended March 31, 2019, operating cash outflows relating to operating lease liabilities was \$73,473 and the expense for right of use assets for operating leases was \$77,704. As of March 31, 2019, the Company's operating leases had a weighted-average remaining term of 3.7 years and weighted-average discount rate of 4.5%. Excluded from the measurement of operating lease liabilities and operating lease right-of-use assets were certain office, warehouse and distribution contracts that either qualify for the short-term lease recognition exception.

On August 8, 2016, SRM entered into a lease for office space in Kowloon, Hong Kong. On August 8, 2018, SRM extended its lease for office space in Kowloon, Hong Kong so that the lease will now expire on August 7, 2020. Monthly lease payments are approximately \$6,400 for a total of approximately \$154,000 for the total term of the lease.

Total rent expense for the three months ended March 31, 2019 and 2018 was \$144,433 and \$64,026, respectively. Rent expense is included in general and administrative expense on the consolidated statements of operations.

The following is a reconciliation of future undiscounted cash flows to the operating liabilities, and the related right of use assets, included in our Condensed Consolidated Balance Sheets as of March 31, 2019:

	March 31, 2019
2019 (excluding the three months ended March 31, 2019)	221,931
2020	286,417
2021	237,377
2022	78,648
2023	78,648
2024 and thereafter	52,430
Total future lease payments	955,451
Less: imputed interest	(78,110)
Present value of future operating lease payments	877,341
Less: current portion of operating lease liabilities	(263,532)
Operating lease liabilities, net of current portion	613,809
Right of use assets – operating leases, net	873,110

Rental Income

Fergco leases a portion of the building located in Washington, New Jersey that it owns under a month to month lease. Total rental income related to the leased space for both the three months ended March 31, 2019 and 2018 was \$25,704, respectively, and is included in other income on the consolidated statements of operations.

Legal Contingencies

The Company is involved in claims and litigation in the ordinary course of business, some of which seek monetary damages, including claims for punitive damages, which are not covered by insurance. For certain pending matters, accruals have not been established because such matters have not progressed sufficiently through discovery, and/or development of important factual information and legal information is insufficient to enable the Company to estimate a range of possible loss, if any. An adverse determination in one or more of these pending matters could have an adverse effect on the Company's consolidated financial position, results of operations or cash flows.

We are, and may in the future become, subject to various legal proceedings and claims that arise in or outside the ordinary course of business.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 9 — Stockholders' Equity

Stock-Based Compensation

On September 6, 2018, the Company's board of directors approved an amendment and restatement of the Company's omnibus incentive plan solely to reflect the Company's name change to Edison Nation, Inc. Thus, the Edison Nation, Inc. Omnibus Incentive Plan (the "Plan") which remains effective as of February 9, 2018, provides for the issuance of up to 1,764,705 shares of common stock to help align the interests of management and our stockholders and reward our executive officers for improved Company performance. Stock incentive awards under the Plan can be in the form of stock options, restricted stock units, performance awards and restricted stock that are made to employees, directors and service providers. Awards are subject to forfeiture until vesting conditions have been satisfied under the terms of the award. The exercise price of stock options are equal to the fair market value of the underlying Company common stock on the date of grant.

The following table summarizes stock option award activity for the three months ended March 31, 2019:

	Shares	Weighted Average Exercise Price	Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance, January 1, 2019	290,000	\$ 5.55	4.2	-
Granted	-	-	-	-
Balance, March 31, 2019	290,000	\$ 5.55	4.1	-
Exercisable, March 31, 2019	166,667	\$ 5.32	4.1	-

As of March 31, 2019, there was 123,333 unvested options to purchase common units of Edison Nation, Inc. or \$178,360 of total unrecognized equity-based compensation expense that the Company expected to recognize over a remaining weighted-average period of 1.4 years. The Company recorded stock-based compensation expense of \$184,419 for the three months ended March 31, 2019. The Company recorded stock-based compensation expense of \$1,721,250, related to the assumption of certain consulting agreements which were satisfied by the principal stockholder of SRM transferring 344,250 shares to the consultants, for the three months ended March 31, 2018.

In addition, the Company recorded stock-based compensation expense of \$178,000 related to the issuance of 10,500 shares of common stock valued at \$52,500 and 50,000 shares of common stock issued in 2018 valued at \$251,000, of which \$125,500 was expensed for the three months ended March 31, 2019 and \$125,500 was unrecognized compensation expense for the three months ended March 31, 2019.

Edison Nation, Inc. (formerly known as Xspan Products Lab, Inc.) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Subsequent Events

Receivables Financing

In April 2019, we entered into a receivables financing arrangement for certain receivables of the Company. The agreement allows for borrowing up to 80% of the outstanding receivable based on the credit quality of the customer. The fee is between 1% and 2% of the total invoice financed.

Convertible Note

On May 13, 2019, Edison Nation, Inc. (the “Company”) entered into a 2% senior secured, senior convertible promissory note (the “Note”) for up to \$1,000,000. The Company will issue 30,000 shares of its common stock, par value \$0.001 per share (“Common Stock”) to the note holder as additional consideration for the purchase of the Note. Under the terms of the note, the note holder will have piggyback registration rights. On May 13, 2019, the Company borrowed \$600,000 under the note.

Share Issuances

On May 6, 2019, we issued 12,500 shares of our common stock valued at \$48,375 to an innovator in connection with their licensing agreement.

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

Overview

Edison Nation: End-to-end product innovation, development and commercialization

Edison Nation is a vertically-integrated, end-to-end, consumer product research and development, manufacturing, sales and fulfillment company.

The Company is the aggregation of five wholly owned subsidiaries whose operations and go-to-market strategy are vertically integrated under the Edison Nation corporate umbrella.

During the first quarter of 2019, Edison Nation rolled out its “One Company” initiative to integrate the acquired businesses into one cohesive operation.

Edison Nation’s cornerstone business driver is its proprietary web-enabled new product development and licensing platform (www.edisonnation.com) that provides a low risk, high reward process to connect innovators of new product ideas with potential licensing partners.

Considered to be the “go-to” resource for independent innovators with great consumer product invention ideas, Edison Nation engages with over 140,000 registered online innovators and entrepreneurs to bring innovative, new products to market focusing on high-interest, high-velocity consumer categories.

Since its inception, Edison Nation has received over 100,000 idea submissions, with products selling in excess of \$250 million at retail through the management of over 300 client product campaigns with distribution across diverse channels including ecommerce, mass merchandisers, specialty product chains, entertainment venues, national drug chains, and tele-shopping. These clients include many of the largest manufacturers and retailers in the world including Amazon, Bed Bath and Beyond, HSN, Rite Aid, P&G, and Black & Decker.

Edison Nation also creates, manufactures and markets its own products for the infant / toddler market under the Cloud b consumer brand name. In addition, the Company leverages its vertically integrated resources and capabilities to create licensed consumer products for large entertainment theme park enterprises, like Disney World and Universal Studios.

Edison Nation also creates, manufactures and markets its own products including the infant / toddler market under the Cloud b consumer brand name, innovative party products under the Best Party Concepts brand, and premium branded coloring activities under the Pirasta brand. Recently the company launched product lines for 911 Help Now, Master Sous and Smarter Specs. In addition, the Company leverages its vertically integrated resources and capabilities to create licensed consumer products for large entertainment theme park enterprises, like Disney World and Universal Studios as well as custom packaging solutions for large and small U. S. Based companies.

Business Model

New product ideas have little value without the ability and skill required to commercialize them. The considerable investment and executional “know how” needed to initiate a process - from idea to product distribution - has always been a challenge for the individual innovator.

Edison Nation’s business model is designed to take advantage of online marketplace and crowdfunding momentum for our future growth mitigating new product development risk while allowing for optimized product monetization based on a product’s likelihood to succeed.

To that end, Edison Nation empowers and enables innovators and entrepreneurs to develop and launch products, gain consumer adoption and achieve commercial scale efficiently at little to no cost.

The Edison Nation New Product Development & Commercialization Platform

Indeed, the cornerstone of Edison Nation’s competitive advantage is its proprietary and web-enabled new product development (“NPD”) and commercialization platform. The platform can take a product from idea through ecommerce final sale in a matter of months versus a year or more for capital intensive and inefficient new product development protocols traditionally used by legacy manufacturers serving “big box” retailers.

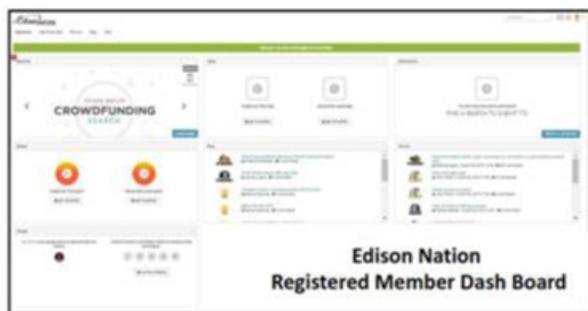
The Company’s web-enabled NPD platform is designed to optimize product licensing and commercialization through best-in-class digital technologies, sourcing / manufacturing expertise and one of the largest sets of go-to-market solutions. This unique set of resources and capabilities have proven to be a reliable catalyst for sales success.

In order to expand the Company’s universe of registered innovators and entrepreneurs submitting ideas on the Edison Nation NPD web platform, the Company has entered a global agreement for distribution of two existing 13-episode seasons of the Company’s Everyday Edison TV series with a leading digital media service company. The series will be available in its original English version as well as voiceover adaptations in German, French, and Spanish. Distribution is planned for Europe and the Middle East through digital content providers such as Amazon Prime Video.

Product Submission Aggregation

Interested innovators enter the Edison Nation web site to register for a free account by providing one’s name and email address. The member then creates a username and password to use on the site. Once registered, the member is provided with their own unique, password protected dashboard by which they can begin submitting ideas and join

online member forums to learn about industry trends, common questions, engage in member chats, and stay informed of the latest happenings at Edison Nation. They can also track the review progress of ideas they submit through their dashboard.



Edison Nation accepts ideas through a secure online submission process. Once a member explores the active searches in different product categories being run on the platform for potential licensees seeking new product ideas to be commercialized, the member can submit their new product ideas for processing. Edison Nation regularly works with different companies and retailers in various product categories to help them find new product ideas.

Registered members pay \$25 to submit an idea. This submission fee covers a portion of the cost to review each idea submitted to the platform. There are no additional fees after the submission fee.

Although the platform might not have an active search that matches the innovator's idea, the Edison Nation Licensing Team hosts an ongoing search for new consumer product ideas in all categories.

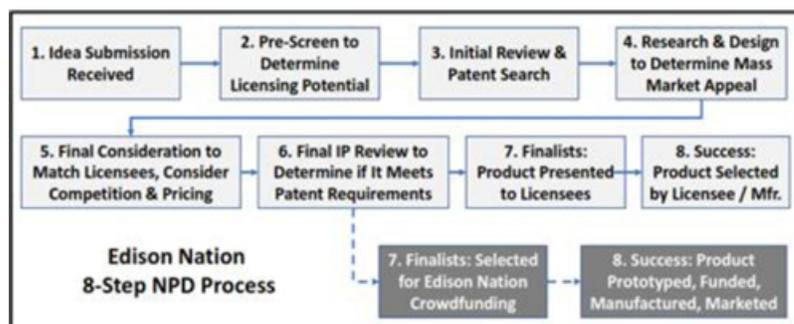
"Insider Membership" is Edison Nation's premium level of membership. Insiders receive feedback on all their ideas submitted and gain access to online features that aren't available to registered members. In addition, Insiders pay \$20 for each idea submitted (20% discount vs. a registered member), can opt-in ideas for free, as well as receive other benefits. An annual membership costs \$99, or \$9.25 / month automatically debited from a credit card each month. Also included online is feedback to the innovator on the status of each stage of the process and notification when ideas are not selected to move forward during any stage in the review process.

Insiders also have access to the Insider Licensing Program (the "ILP"). The primary benefit of the ILP is having the Edison Nation Licensing team working directly on an innovator's behalf to help secure a licensing agreement with one of the company's manufacturing partners. If an idea is selected for commercialization by a retail partner, Edison Nation will invest in any necessary patent applications, filings and maintenance. The innovator's name is included on any patent or patent application that Edison Nation files on the member's behalf after the idea has been selected.

In addition to the above member programs, Edison Nation ASOTV ("As Seen on TV") Team hosts a search for new products suitable for marketing via DRTV and subsequent distribution in national retail chains including mass merchandisers, specialty retail, drug chains and department stores.

Product Submission Review

Led by the Company's NPD Licensing Team (which has over 150 years of combined experience in a variety of industries and product categories), all ideas submitted by innovators through the Company's website are reviewed and assessed through an 8-stage process. Edison Nation's product idea review process is confidential with non-disclosure agreements executed with every participating registered or "Insider" member.



The NPD platform's database of over 85,000 product ideas helps determine which inventions have a substantial market opportunity quickly through proprietary algorithms that have been developed incorporating continuous learning from marketplace experience and changes in category requirements.

Selected ideas are assessed by the NPD Licensing Team based on nine key factors: competing products, uniqueness, retail pricing, liability & safety, marketability, manufacturing cost, patentability, consumer relevant features and benefits, and commercial-ability.

The time required to review ideas depends upon different variables, such as: the number of searches concurrently running on Edison Nation platform, idea volume and complexity of the search, how many presentation dates to licensees are pending, the date an idea is submitted, etc.

Presentation dates to potential licensees are usually set a few weeks following the close of the search. After the presentation has been given to a licensing / retail partner, the partner has 45 days to 6 months to select ideas on which they will move forward.

The Insider Licensing Program (ILP program) incorporates a four-stage process:

- **Stage #1 — Preliminary Review:** The NPD licensing team performs a preliminary review to ensure an invention meets the program criteria. Factors that might stall an idea from moving forward include: an invention is cost-prohibitive, has engineering challenges, and/or major players in the marketplace have already launched products like it. If none of these apply, an idea will be approved and move on to the preparation phase.
- **Stage #2 — Preparation:** The NPD licensing team performs a best partner review. Edison Nation's retail and manufacturing contacts are assessed, and the team begins to plan which licensors would be the best fit for an idea. A gap analysis and visits the store shelves are executed to gain greater understanding of marketplace potential.
- **Stage #3 — Pitching:** At this phase, an idea can become a "Finalist." The NPD team begins to proactively pitch an idea to potential licensees using a proprietary presentation system. When a company expresses interest, the team proceeds into term sheets and negotiations while staying in constant contact with the prospect until the best possible deal is struck for the innovator.
- **Stage #4 — Outcome:** In the end, the market decides what products will be successful. There are no guarantees. If for some reason Edison Nation is not successful in finding a licensing partner, a complete debrief is given to the Insider.

Due to the public nature of licensing, Edison Nation only accepts ideas from Insiders that are patented or patent-pending. A valid provisional patent application is required. The cost of submitting an idea to the Insider Licensing Program is \$100, and a member must be an "Insider" to be considered.

The Edison Nation ASOTV new product development process follows a six-stage protocol appropriate for the broadcast-based sales channel. For more information regarding the ASOTV process, the Edison Nation NPD platform, its features and member benefits, visit <https://app.edisonnation.com/faq>.

Acquisition of Intellectual Property

Once an innovator's idea is judged to be a potentially viable, commercial product and selected for potential commercialization, the Company acquires intellectual property rights from the innovator.

Once an innovator's intellectual property is secured, the innovator's product idea can then either be licensed to a manufacturer or retailer, or developed and marketed directly by Edison Nation. In either case, Edison Nation serves as the point-of-contact with the innovator for term sheets, royalty negotiation and concluding licensing agreements. Edison Nation also maintains contact with the innovator to keep them engaged during product development.

In general, innovators are paid a percentage of the Company's revenue from the commercialization of the innovator's intellectual property. This percentage varies with the Company's investment in the development of the intellectual property, including whether the Company decides to license the innovator's idea for commercialization or instead, to directly develop and market the innovator's idea.

One Company Initiative

During the first quarter of 2019, Edison Nation began the process to consolidate all operating companies businesses into distinct business units of Edison Nation, which allows the Company to focus on growing sales and leveraging operations. The units consist of:

- **Innovate.** The Edison Nation Platform. Responsible for the innovation platform that helps inventors go from idea to reality. This is accomplished by optimizing new product election process through deeper analytics to predict success on platforms like crowdfunding and web market places like Amazon. Driving brand awareness of the platform by producing content for inventors and innovators on media platforms including our own Everyday Edison's television show.
- **Build and launch.** Consolidating our teams of product designers and developers who take the product from the concept to the consumers hand. These are distributed by geography, industry skillset and expertise in the development process to ensure efficient product build and launch. The bulk of operations are part of this business unit, and the company will continue to develop this unit to meet the needs of our product launch schedule.
- **Sell.** Our Omni-channel sales effort is divided into three groups; (1) business-to-business revenue opportunities including traditional brick and mortar retailers (2) online market places and direct-to-consumer revenue opportunities, and (3) our NiTRO Team (Near Term Revenue Opportunities). NiTRO, identifies brands and products lines that would benefit from being part of Edison Nation. The team seeks to find a mutually beneficial transaction to accomplish that goal.

Product Design and Development

With product design, product prototyping and creation of marketing assets all resourced with expert Edison Nation in-house capabilities, we have made protracted, high-cost, high-risk research and development models obsolete.

Edison Nation custom designs most products in-house for specific customers and their needs. We utilize our existing tooling to produce samples and prototypes for customer reviews, refinement and approval, as well as our in-house packaging design and fabrication resources.

The Company's design and product development professionals are dedicated to the commercialization and marketability of new product concepts advanced through the company's NPD platform and for licensors / partners like Disney World and Universal Studios.

No matter the product, Edison Nation's objective is to optimize its marketability, function, value and appearance for the benefit of the consumer end user. From concept and prototyping, through design-for-manufacture, special attention is paid to a product's utility, ease of use, lowest cost bill of materials, and how it "communicates" its features and benefits through design.

The combined experience and expertise of the Company's team spans many high-demand categories including household items, small appliances, kitchenware, and toys. The company's in-house capabilities are complimented by third-party engineering and prototyping contractors, like Enventys Partners, and category-specific expert resources within select manufacturers.

Paths to Market

After an innovator's idea has been selected and then developed, Edison Nation's NPD and commercialization platform - powered by team of experienced licensing experts and backed by our scalable manufacturing and fulfillment supply chain infrastructure - provides innovators with a clear and unencumbered set of paths to market.

Matching the Innovation with the Licensing Community

Edison Nation partners with many of the biggest and most well-known consumer products companies and retailers. They use the Company's platform as a "think engine" to develop targeted products, significantly reduce research and development expense, and expedite time to market.

Each potential licensee of an innovator's idea publishes an exclusive page on the Edison Nation web site with innovation goals and timeline for their search. Appropriate new product ideas are submitted in 100% confidence with all intellectual property safely guarded.

Once the search concludes, Edison Nation presents each with the best patent protected, or patentable ideas that can be selected for development.

Licensing partners and customers include Amazon, Bed, Bath & Beyond, Church & Dwight, Black & Decker, HSN, Worthington Industries, Pampered Chef, Boston America Corp., Walmart, Target, PetSmart, "As Seen on TV," Sunbeam, Home Depot, and Apothecary Products.

Crowdfunding



Edison Nation has established a commercialization path to include the development and management of crowdfunding campaigns. This is evolving to be a strong engine for future growth.

The benefits of crowdfunding include increased product testing efficiency, decrease financial risk, and the ability to get closer to the end consumer, simultaneously.

The ability for consumers to re-order product not only gauges marketplace demand, but it can also be leveraged as a quantitative "proof point" for potential sales to licensees. Most importantly, the money pledged for orders can be used to finance manufacturing and ecommerce launch marketing costs as negative working capital.

Edison Nation's experience with crowdfunding is extensive and with significant success. To date, our crowdfunding strategic partner, Enventys, has executed approximately 600 crowdfunding campaigns with an estimated average revenue of \$250,000 per campaign, with online consumer purchase occurring on average within 30 days. The cost of a crowdfunding campaign run by Edison Nation is as low as approximately \$25,000.



One recent example of a successful Kickstarter campaign run by the Company is last year's introduction of the MasterSous, 8-in-1 Smart Cooker. This Wi-Fi-connected multi-cooker can sous vide, deep fry, simmer, sear, sauté, boil, steam and slow cook while autonomously stirring food. The owner can use the MasterSous mobile app to remotely adjust cooking times and control the automatic stirring mechanism that keeps food in constant motion for even cooking.

The successful Kickstarter crowdfunding campaign for the 8-in-1 Smart Cooker resulted in approximately \$200,000 in deferred revenue to Edison Nation (300%+ than anticipated) from 738 backers. The 8-in-1 Smart Cooker product is now in production funded by the revenue gained (negative capital) in the Kickstarter campaign.

The product will be available to consumers in October 2019.

Manufacturing, Materials and Logistics

Once a product's path to market is successfully identified, Edison Nation produces and commercializes the product either through (i) licensing partnerships, or (ii) through a direct-to-market path via ecommerce or traditional retail distribution.

To provide greater flexibility in the manufacturing and delivery of products, and as part of a continuing effort to reduce manufacturing costs, Edison Nation has concentrated production of most of the Company's products in third-party manufacturers located in China and Hong Kong. The Company maintains a fully staffed Hong Kong office for sourcing, overseeing manufacturing and quality assurance.

Edison Nation's contracted manufacturing base continues to expand, from two major facilities to 4 to-date. These include two manufacturers required to produce Cloud b children's sleep products and one for the MasterSous kitchen appliance. Based on anticipated manufacturing requirements, this footprint may expand significantly by the end of 2019. The Company also continues to explore more efficient and expert manufacturing partners to gain greater economies of scale, potential consolidation, and cost savings on an on-going basis.

Products are also purchased from unrelated enterprises with specific expertise in the design, development, and manufacture those specialty products.

We base our production schedules on customer orders and forecasts, considering historical trends, results of market research, and current market information. Actual shipments of ordered products and order cancellation rates are affected by consumer acceptance of product lines, strength of competing products, marketing strategies of retailers, changes in buying patterns of both retailers and consumers, and overall economic conditions. Unexpected changes in these factors could result in a lack of product availability or excess inventory in a product line.

Most of our raw materials are available from numerous suppliers but may be subject to fluctuations in price.

Sales, Marketing and Advertising

Our Omni-channel sales effort is divided into three groups; (1) business-to-business revenue opportunities including traditional brick and mortar retailers (2) online market places and direct-to-consumer revenue opportunities, and (3) our NiTRO Team (Near Term Revenue Opportunities). NiTRO, identifies brands and products lines that would benefit from being part of Edison Nation. The team seeks to find a mutually beneficial transaction to accomplish that goal.

Edison Nation's business to business team sells products through a diverse network of manufacturers, distributors and retailers. New customer prospects are gained through outbound sales calls, trade show participation, web searches, referrals from existing customers.

The online team for the company has expertise in selling products on platforms such as the Amazon marketplace as well as portals like Walmart.com and "crowd-funded" websites such as Kickstarter and Indiegogo.

The NiTRO team identifies small, unique brands that could benefit from becoming part of a larger consumer products organization with more resources. The team seeks to negotiate a mutually beneficial agreement whereby the respective branded products become part of Edison Nation's portfolio of consumer products.

In order to expand the Company's universe of registered innovators and entrepreneurs submitting ideas on the Edison Nation NPD web platform, the Company has entered a global agreement for distribution of two existing 13-episode seasons of the Company's Everyday Edison TV series with a leading digital media service company. The series will be available in its original English version as well as voiceover adaptations in German, French, and Spanish. Distribution is planned for Europe and the Middle East through digital content providers such as Amazon Prime Video.

Sources of Revenue

The Company aggressively pursues the following three sources of sales volume:

- Our branded products sold through traditional retail channels of distribution and other channels of business to business distribution.
- Our branded products sold through direct to consumer platforms such as the Amazon marketplace as well as portals like Walmart.com and "crowd-funded" websites such as Kickstarter and Indiegogo.
- Custom products and packaging solutions that the Company develops and manufactures for partners such as Disney, Marvel, Madison Square Garden and Universal Studios.
- Member idea submission and ILP program fees: \$25 per submission (registered members); \$20 per submission (Insider members); \$100 per submission (ILP members)
- *Licensing agents:* We match an innovator's intellectual property with vertical product category leaders in a licensing structure whereby the innovator can earn up to 50% of the contracted licensing fee. Product categories include kitchenware, small appliances, toys, pet care, baby products, health & beauty aids, entertainment venue merchandise, and housewares.
- *Product principals:* We work with innovators directly, providing such innovators direct access to all of Edison Nation's resources. Depending on case-by-case factors, innovators may receive a range of up to 35% - 50% of profits.

Market Overview

The process for developing and launching consumer products has changed significantly in recent years. Previously, Fortune 500 and specialty consumer product companies funded multimillion-dollar NPD divisions to develop and launch products. These products were sold primarily on “big box” retail shelves supported by large marketing investments.

The emergence of ecommerce giants, including Amazon and Walmart.com, has disrupted traditional NPD and commercialization paths and has accelerated a consumer shift away from “brick and mortar” retailers. The result has been the bankruptcy or downsizing of many iconic retailers, including Toys R Us, JC Penney, Macy’s, Sears, Kmart, Office Depot, Family Dollar, and K-B Toys, with a commensurate loss of shelf space and accessible locations.

Moreover, crowdfunding sites, like Kickstarter and Indiegogo, have also disrupted NPD process cycles and are now “main stream.” In fact, as of October 2018, Kickstarter’s cumulative pledged funding exceeded \$3.9 billion according to Kickstarter published data. Statista.com estimates that crowdfunded sales of products will exceed \$18.9 billion by 2021.

These crowdfunding sites have enabled individual innovators and entrepreneurs to design, prototype and market unique products to millions of potential customers with significantly lower acquisition costs when compared to the capital and time required by legacy NPD processes.

Leveraging Evolving Market Opportunities for Growth

The Company believes that its anticipated growth will be driven by five macro factors including:

- The significant growth of ecommerce (14% CAGR, estimated to reach \$4.9 trillion by 2021 (eMarketer 2018);
- The increasing velocity of “brick and mortar” retail closures, now surpassing Great Recession levels (Cushman & Wakefield / Moody’s Analytics 2018);
- Product innovation and immediate delivery gratification driving consumer desire for next-generation products with distinctive sets of features and benefits without a reliance on brand awareness and familiarity;
- The rapid adoption of crowdsourcing to expedite successful new product launches; and
- Utilizing the opportunities to market products over the internet, rather than through traditional, commercial channels, to reach a much broader, higher qualified target market for brands and products.

In addition, we believe that by leveraging our expertise in helping companies launch thousands of new products and our ability to create unique, customized packaging, we intend to acquire small brands that have achieved approximately \$1 million in retail sales over the trailing twelve-month period with a track record of generating free cash flow. In addition, we will seek to elevate the value of these acquired brands by improving each part of their launch process, based on our own marketing methodologies.

We believe our acquisition strategy will allow us to acquire small brands using a combination of shares of our common stock, cash and other consideration, such as earn-outs. We intend to use our acquisition strategy in order to acquire ten or more small brands per year for the next three years. In situations where we deem that a brand is not a “fit” for acquisition or partnership, we may provide the brand with certain manufacturing or consulting services that will assist the brand to achieve its goals.

One example is Cloud b (www.cloudb.com), a leading manufacturer of products and accessories that help parents and children sleep better. The Company distributes its products nationally and in over 100 countries worldwide.



Founded in 2002 and acquired by Edison Nation in October 2018, Cloud b’s highly regarded, award-winning products are developed in consultation with an Advisory Board of pediatricians and specialists. The Company recently won the Toy of the Year award from The Toy Association. Cloud b’s best-known products are Twilight Turtle™ and Sleep Sheep™.

Cloud b’s products can be purchased on-line (through its own ecommerce site and other online e-tailers), in specialty boutiques, gift stores, and worldwide at major retailers including Barnes & Noble, Bloomingdales, Dillard’s, Nordstrom, Von Maur, Harrods of London, and FNAC in France.

Immediate synergies include expanding Edison Nation’s West coast footprint by leveraging Cloud b’s sizeable distribution, sales and fulfillment operations. In addition, Cloud b is leveraging the Edison Nation proprietary NPD platform, Hong Kong-based manufacturer sourcing and management capabilities, and marketing and packaging resources.

Initial focus since acquisition has been to optimize existing product performance, while helping to develop new product lines leveraging the Edison Nation NPD platform.

Factors Which May Influence Future Results of Operations

The following is a description of factors which may influence our future results of operations, and which we believe are important to an understanding of our business and results of operations.

Edison Nation Holdings, LLC Transaction

On September 4, 2018, the Company completed the acquisition of all of the voting membership interest of Edison Nation Holdings, LLC for a total purchase price of \$11,776,696 comprising of (i) \$950,000 cash (ii) the assumption of the remaining balance of the senior convertible debt through the issuance to the holders of 4%, 5-year senior convertible notes (the “New Convertible Notes”), in the aggregate principal and interest amount of the sum of \$1,428,161, which are convertible into approximately 285,632 shares of the Company’s common stock, at the option of the holder of such New Convertible Notes, (iii) the reservation of 990,000 shares of the Company’s common stock that may be issued in exchange for the redemption of certain non-voting membership interests of Edison Nation and (iv) the issuance of 557,084 shares of the Company’s common stock in satisfaction of the indebtedness represented by promissory notes payable by Edison Nation with a total principal balance of \$4,127,602.

Cloud B, Inc. Transaction

On October 29, 2018, the Company entered into a Stock Purchase Agreement with a majority of the stockholders (the “Cloud B Sellers”) of Cloud B, Inc., a California corporation (“Cloud B”). Pursuant to the terms of such Stock Purchase Agreement, the Company purchased 72.15% of the outstanding capital stock of Cloud B in exchange for 489,293 shares of restricted common stock of the Company. In addition, the Company entered into an Earn Out Agreement with the Cloud B Sellers, whereby, beginning in 2019, the Company will pay the Cloud B Sellers an annual amount equal to 8% multiplied by the incremental gross sales of Cloud B over its 2018 gross sales level. The Earn Out Agreement expires on December 31, 2021.

Non-Employee Director Compensation

On September 26, 2018, the Compensation Committee of the board of directors approved the terms of compensation to be paid to non-employee directors for fiscal year 2018. Compensation for non-employee directors includes an annual retainer of \$15,000 and an award of options to purchase 20,000 shares of the Company’s common stock. The restricted stock underlying such options will vest one year after the grant date. However, the options have not yet been granted. In addition, the chair of each of the board’s committees shall receive an annual committee meeting fee of \$5,000.

Acquisition of Pirsata, LLC

On December 31, 2018, the Company completed the acquisition of all of the voting membership interest of Pirasta, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$470,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

Acquisition of Best Party Concepts, LLC

On December 31, 2018, the Company completed the acquisition of 50% of the voting membership interest of Best Party Concepts, LLC from NL Penn Capital, LP in exchange for the satisfaction of \$500,000 due from related party. Accordingly, the consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiary at historical carrying values, except that equity reflects a distribution for the excess of consideration paid over the net carrying amount of assets.

Securities Purchase Agreement

On March 6, 2019, Edison Nation, Inc. (the “Company”) entered into a securities purchase agreement (the “SPA”) with an accredited investor (the “Investor”) pursuant to which the Investor purchased a 2% unsecured, senior convertible promissory note (the “Note”) from the Company. The Company issued 15,000 shares of its common stock, par value \$0.001 per share (“Common Stock”) to the Investor as additional consideration for the purchase of the Note. Under the terms of the SPA, the Investor will have piggyback registration rights in the event the Company files a Form S-1 or Form S-3 within six months from March 6, 2019, as well as a pro rata right of first refusal in respect of participation in any debt or equity financings undertaken by the Company during the 18 months following March 6, 2019. The Company is also subject to certain customary negative covenants under the SPA, including but not limited to, the requirement to maintain its corporate existence and assets subject to certain exceptions, and to not to make any offers or sales of any security under circumstances that would have the effect of establishing rights or otherwise benefitting other investors in a manner more favorable in any material respect than those rights and benefits established in favor of the Investor under the terms of the SPA and the Note. The maturity date of the Note is six months from March 6, 2019. All principal amounts and the interest thereon are convertible into shares Common Stock only in the event that an Event of Default occurs.

Receivables Financing

In April 2019, we entered into a receivables financing arrangement for certain receivables of the Company. The agreement allows for borrowing up to 80% of the outstanding receivable based on the credit quality of the customer. The fee is between 1% and 2% of the total invoice financed.

Critical Accounting Policies and Significant Judgments and Estimates

Our management’s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as the reported expenses during the reporting periods. The accounting estimates that require our most significant, difficult and subjective judgments have an impact on revenue recognition, the determination of share-based compensation and financial instruments. We evaluate our estimates and judgments on an ongoing basis. Actual results may differ materially from these estimates under different assumptions or conditions.

Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Components of our Results of Operations

Revenues

We sell consumer products across a variety of categories, including toys, plush, homewares and electronics, to retailers, distributors and manufacturers. We also sell consumer products directly to consumers through e-commerce channels.

Cost of Revenues

Our cost of revenues includes inventory costs, materials and supplies costs, internal labor costs and related benefits, subcontractor costs, depreciation, overhead and shipping and handling costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of selling, marketing, advertising, payroll, administrative, finance and professional expenses.

Rental Income

We earn rental income from a month-to-month lease on a portion of the building located in Washington, New Jersey that we own.

Interest Expense, Net

Interest expense includes the cost of our borrowings under our debt arrangements.

Results of Operations

Three Months Ended March 31, 2019 versus Three Months Ended March 31, 2018

The following table sets forth information comparing the components of net (loss) income for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Period over Period Change	
	2019	2018	\$	%
Revenues, net	\$ 5,738,534	\$ 3,431,330	\$ 2,307,204	67.2%
Cost of revenues	3,945,558	2,328,994	1,616,564	69.4%
Gross profit	<u>1,792,976</u>	<u>1,102,336</u>	<u>690,640</u>	<u>62.7%</u>
Operating expenses:				
Selling, general and administrative	3,049,188	2,552,737	496,451	19.4%
Operating (loss) income	(1,256,212)	1,450,401	194,189	-13.4%
Other (expense) income:				
Rental income	25,704	25,704	-	0.0%
Interest (expense) income	(124,694)	(87,535)	(37,159)	42.5%
Total other (expense) income	(98,990)	(61,831)	(37,159)	60.1%
Loss before income taxes	(1,355,202)	(1,512,232)	157,030	-10.4%
Income tax expense	23,195	65,073	(41,878)	-64.4%
Net loss	<u>(1,378,397)</u>	<u>(1,577,305)</u>	<u>198,908</u>	<u>-12.6%</u>
Net income attributable to noncontrolling interests	56,893	-	56,893	na
Net loss attributable to Edison Nation, Inc.	<u>\$ (1,435,290)</u>	<u>\$ (1,577,305)</u>	<u>\$ 142,015</u>	<u>-9.0%</u>

Revenue

For the three months ended March 31, 2019, revenues increased by \$2,307,204 or 67.2%, as compared to the three months ended March 31, 2018. The increase was primarily attributable to new business in connection with our acquisitions in 2018. The increase includes licensing related revenues related to our acquisition of Edison Nation Holdings, LLC and product revenues related to our acquisition of Cloud B, Inc.

Cost of Revenues

For the three months ended March 31, 2019, cost of revenues increased by \$1,616,564 or 69.4%, as compared to the three months ended March 31, 2018. The increase was primarily attributable to the increase in total consolidated revenues.

Gross Profit

For the three months ended March 31, 2019, gross profit increased by \$690,640, or 62.7%, as compared to the three months ended March 31, 2018. The increase was primarily a result of the increase in revenues. For the three months ended March 31, 2019, gross margin decreased to 31.2%, as compared to 32.1% for the three months ended March 31, 2018. The decrease in gross margin was due to product mix of goods sold to customers.

Operating Expenses

Selling, general and administrative expenses were \$3,049,188 and \$2,552,737 for the three months ended March 31, 2019 and 2018, respectively, representing an increase of \$496,451, or 19.4%. The increase was primarily the result of operating expense incurred related to Edison Nation Holdings, LLC and Cloud B, Inc. The increase in operating expenses is due to increased costs related to completed acquisitions as well as the integration of such acquisitions of \$223,538 and increased costs of operating as a public company. The larger costs include increases in wages and benefits of approximately \$500,000. The wage increase relates primarily to a growth initiative whereby new staff will design, build and launch new products for the Company.

There are also increases in the following: depreciation and amortization of approximately \$266,000, investor relations of approximately \$161,000, external commissions of approximately \$57,000, license and registration of approximately \$26,000, rent of approximately \$81,000, consulting fees of approximately \$156,000 relating primarily to the integration of acquisitions, legal fees of approximately \$70,000, shipping, freight and postage of approximately \$111,000, travel of approximately \$44,000, computer, internet and website of approximately \$56,000. In addition, there was a decrease of stock compensation of approximately \$1,400,000 offsetting the expenses.

Rental Income

Rental income was \$25,704 for both the three months ended March 31, 2019 and 2018.

Interest expense

Interest expense was \$124,694 for the three months ended March 31, 2019 versus \$87,535 in the previous three months ended March 31, 2018. The increase in interest expense was related to increased borrowings of debt during 2019.

Income tax expense

Income tax expense was \$23,195 for the three months ended March 31, 2019, a decrease of \$41,878 or 64.4%, compared to \$65,073 for the three months ended March 31, 2018. The decrease was primarily due to the decrease in income from our foreign operations with no offset for income in the United States.

Non-GAAP Measures

EBITDA and Adjusted EBITDA

The Company defines EBITDA as net loss before interest, taxes and depreciation and amortization. The Company defines Adjusted EBITDA as EBITDA, further adjusted to eliminate the impact of certain non-recurring items and other items that we do not consider in our evaluation of our ongoing operating performance from period to period. These items will include stock-based compensation, restructuring and severance costs, transaction costs, acquisition costs, certain other non-recurring charges and gains that the Company does not believe reflects the underlying business performance.

For the three months ended March 31, 2019 and 2018, EBITDA and Adjusted EBITDA consisted of the following:

	For the Three Months Ended March 31,	
	2019	2018
Net loss	\$ (1,378,397)	\$ (1,577,305)
Interest expense, net	124,696	87,535
Income tax expense	23,195	65,073
Depreciation and amortization	301,383	39,631
EBITDA	(929,123)	(1,385,066)
Stock-based compensation	309,919	1,721,250
Other noncash stock-based charges	52,500	-
Restructuring and severance costs	36,385	-
Transaction and acquisition costs	223,538	-
Other non-recurring costs	104,174	-
Adjusted EBITDA	<u>\$ (202,607)</u>	<u>\$ 336,184</u>

EBITDA and Adjusted EBITDA is a financial measure that is not calculated in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Management believes that because Adjusted EBITDA excludes (a) certain non-cash expenses (such as depreciation, amortization and stock-based compensation) and (b) expenses that are not reflective of the Company's core operating results over time (such as restructuring costs, litigation or dispute settlement charges or gains, and transaction-related costs), this measure provides investors with additional useful information to measure the Company's financial performance, particularly with respect to changes in performance from period to period. The Company's management uses EBITDA and Adjusted EBITDA (a) as a measure of operating performance, (b) for planning and forecasting in future periods, and (c) in communications with the Company's board of directors concerning the Company's financial performance. The Company's presentation of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation and should not be used by investors as a substitute or alternative to net income or any measure of financial performance calculated and presented in accordance with U.S. GAAP. Instead, management believes EBITDA and Adjusted EBITDA should be used to supplement the Company's financial measures derived in accordance with U.S. GAAP to provide a more complete understanding of the trends affecting the business.

Although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation or as a substitute for, or more meaningful than, amounts determined in accordance with U.S. GAAP. Some of the limitations to using non-GAAP measures as an analytical tool are (a) they do not reflect the Company's interest income and expense, or the requirements necessary to service interest or principal payments on the Company's debt, (b) they do not reflect future requirements for capital expenditures or contractual commitments, and (c) although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and non-GAAP measures do not reflect any cash requirements for such replacements.

Liquidity and Capital Resources

For the three months ended March 31, 2019, our operations lost approximately \$1,300,000, of which approximately \$700,000 was non-cash and approximately \$400,000 related to transaction costs and other non-recurring items.

At March 31, 2019, we had total current assets of approximately \$6,200,000 and current liabilities of approximately \$10,800,000 resulting in negative working capital of approximately \$4,600,000, of which approximately \$3,800,000 was related to unsecured trade payables assumed in our Cloud B acquisition. In February 2019, our consolidating subsidiary, CBAV1, LLC, foreclosed on its promissory note it held that was secured by Cloud B, Inc.'s assets making any payments of the Cloud B trade payables unlikely. At March 31, 2019, we had total assets of approximately \$30,300,000 and total liabilities of approximately \$15,400,000 resulting in stockholders' equity of approximately \$14,900,000.

The foregoing factors raised concerns about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company's ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations from the sale of its products. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management has considered possible mitigating factors within our management plan on our ability to continue for at least a year from the date these financial statements are filed. The following items are management plans to alleviate any going concern issues:

- Raise further capital through the sale of additional equity;
- Borrow money under debt securities;
- The deferral of payments to related party debt holders for both principal of \$967,576 and related interest expense;
- Cost saving initiatives related to synergies and the elimination of redundant costs of approximately \$500,000; and
- Possible sale of certain brands to other manufacturers.

Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Cash Flows

During the three months ended March 31, 2019 and 2018, our sources and uses of cash were as follows:

Cash Flows from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2019 was \$1,692,196 which included a net loss of \$1,378,397 that included \$1,111,327 of cash used by changes in operating assets and liabilities which was offset by stock-based compensation of \$362,419, depreciation and amortization of \$301,383, amortization of debt issuance costs of \$56,022 and amortization of right of use assets of 77,704. Net cash provided by operating activities for the three months ended March 31, 2018 was \$239,844, which included cash used by net income of \$1,577,305, which was offset by stock-based compensation of \$1,721,250 and \$18,729 of cash used in changes in operating assets and liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities was \$72,955 and \$16,403 for the three months ended March 31, 2019 and 2018, respectively. Cash used in investing activities was attributable the purchase of property and equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the three months ended March 31, 2019 totaled \$431,866 which related mostly to net cash received borrowings under new debt instruments offset by repayments. Cash provided by financing activities for the three months ended March 31, 2018 was \$366,753 which related to borrowings under two notes payable.

Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any relationships with any organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Principal Executive Officer and Principal Financial and Accounting Officer has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly report. Based on such evaluation, the Company's Principal Executive Officer and Principal Financial and Accounting Officer have concluded that, as of the end of such period covered by this Quarterly Report, the Company's disclosure controls and procedures were not effective to provide reasonable assurance that information that it is required to disclose in reports that the Company files with the SEC is recorded, processed, summarized and reported within the time periods specified by the Exchange Act rules and regulations.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under Exchange Act (already defined).

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting as of March 31, 2019, we determined that, there were control deficiencies existing that constituted a material weakness.

This Quarterly Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal controls over financial reporting because this is not required of the Company pursuant to Regulation S-K Item 308(b).

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2019, there were no changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of management, including our principal executive officer, we have not completed an evaluation of the effectiveness of our internal control over financial reporting based on the COSO Framework. Based on this evaluation under the COSO Framework, management concluded that our internal control over financial reporting was not effective as of March 31, 2019.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting.

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.

As of March 31, 2019, management has not completed an effective assessment of the Company's internal control over financial reporting based on the COSO framework. Management has concluded that as of March 31, 2019, our internal control over financial reporting was not effective to detect the inappropriate application of U.S. GAAP. Management identified the following material weaknesses set forth below in our internal control over financial reporting.

1. We did not perform an effective risk assessment or monitor internal controls over financial reporting.
2. With the acquisitions of Edison Nation Holdings, LLC and Cloud B, Inc., there are risks related to the timing and accuracy of the integration of information from various accounting and ERP systems. The Company has experienced delays in receiving information in a timely manner from its subsidiaries.
3. Due to the demands of integrating the accounting and finance functions, along with turnover in the accounting department, the impact of new accounting standards were not completed on a timely basis.

In April 2019, the Company has engaged an outside consultant to assist in monitoring and testing our internal controls. The Company expects improvements to be made on the integration of information issues in 2019 as we plan to move towards one accounting and a single ERP system. The Company is continuing to further remediate the material weakness identified above as its resources permit.

We are not required by current SEC rules to include, and do not include, an auditor's attestation report regarding our internal controls over financial reporting. Accordingly, our registered public accounting firm has not attested to management's reports on our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is party to legal actions that are routine and incidental to its business. However, based upon available information and in consultation with legal counsel, management does not expect the ultimate disposition of any or a combination of these actions to have a material adverse effect on the Company's assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and/or results of operations.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

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

In connection with the foregoing, the Company relied upon the exemptions from registration provided by Rule 701 and Section 4(a)(2) under the Securities Exchange Act of 1933, as amended:

On May 4, 2018, we issued 13,500 shares of our common stock valued at \$67,500 related to the borrowing of funds under a note payable.

On May 8, 2018, we issued 61,900 shares of our common stock valued at \$306,000 to various employees.

On August 17, 2018, we issued 50,000 shares of our common stock valued at \$250,000 to a consultant for services provided.

On August 23, 2018, we issued 20,000 shares of our common stock valued at \$100,000 related to the borrowing of funds under a note payable.

On September 4, 2018, we issued 557,084 shares of our common stock valued at \$3,384,285 related to the acquisition of Edison Nation Holdings, LLC.

On September 10, 2018, we issued 20,000 shares of our common stock valued at \$100,000 to a consultant for services performed.

On September 20, 2018, we issued 5,000 shares of our common stock valued at \$25,000 to a consultant for services performed.

On October 23, 2018, we issued 10,000 shares of our common stock valued at \$50,000 to a consultant for services performed.

On November 6, 2018, we issued 2,000 shares of our common stock valued at \$10,000 to a consultant for services performed.

On December 21, 2018, we issued 50,000 shares of our common stock valued at \$251,000 to a consultant for services performed.

On December 27, 2018, we issued 489,293 shares of our common stock valued at \$2,664,200 related to the acquisition of Cloud B, Inc.

On December 27, 2018, we issued 18,797 shares of our common stock valued at \$100,000 to a consultant for services performed.

On December 27, 2018, we issued 41,736 shares of our common stock valued at \$250,000 to 2 employees.

On December 28, 2018, we issued 3,000 shares of our common stock valued at \$15,000 to a consultant for services performed.

On March 6, 2019, we issued 15,000 shares of our common stock valued at \$74,100 related to the borrowing of funds under a note payable.

On March 13, 2019, we issued 10,500 shares of our common stock valued at \$52,500 to two consultants for services performed.

Use of Proceeds

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference to			Filed Herewith
		Form	Exhibit	Filing Date	
10.1	Form of Securities Purchase Agreement dated March 6, 2019	8-K	10.1	March 13, 2019	
10.2	Form of 2% Senior Convertible Promissory Note dated March 6, 2019	8-K	10.2	March 13, 2019	
10.3	Pledge Agreement dated March 12, 2019	8-K	10.3	March 13, 2019	
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				*
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				*
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				**
101.INS*	XBRL Instance Document				*
101.SCH*	XBRL Taxonomy Extension Schema Document				*
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				*
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				*

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2019

EDISON NATION, INC.

By: /s/ Christopher B. Ferguson
Christopher B. Ferguson
Chairman and Chief Executive Officer
(Principal Executive Officer)

EDISON NATION, INC.
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Christopher B. Ferguson, certify that:

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

Date: May 15, 2019

/s/ Christopher B. Ferguson
Christopher B. Ferguson
Chief Executive Officer
(Principal Executive Officer)

**EDISON NATION, INC.
CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Philip Anderson, certify that:

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

Date: May 15, 2019

/s/ Philip Anderson
Philip Anderson
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the quarterly report on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), of Edison Nation, Inc. (the "**Company**"), each of the undersigned officers of the Company hereby certify, in their capacity as an executive officer of the Company, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

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

Date: May 15, 2019

/s/ Christopher B. Ferguson
Christopher B. Ferguson
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2019

/s/ Philip Anderson
Philip Anderson
Chief Financial Officer
(Principal Financial Officer)
