

**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 June 30, 2020

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)

1 West Broad Street, Suite 1004
Bethlehem, Pennsylvania
(Address of Principal Executive Offices)

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

18018
(Zip Code)

(484) 893-0060

(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 August 17, 2020, there were 10,683,291 shares of the registrant's common stock outstanding.

EDISON NATION, INC.

TABLE OF CONTENTS

	Page Number
<u>PART I</u>	4
Item 1. <u>Financial Statements</u>	4
<u>Condensed Consolidated Balance Sheets as of June 30, 2020 (Unaudited) and December 31, 2019</u>	5
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020 and 2019 (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	39
<u>PART II</u>	41
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	41
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	43
<u>Signatures</u>	44

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 June 30, 2020 (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;
- Risks related to the integration with regards to potential or completed acquisitions;
- Various risks related to health epidemics, pandemics and similar outbreaks, such as the coronavirus disease 2019 ("COVID-19") pandemic, which may have material adverse effects on our business, financial position, results of operations and/or cash flows.

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.

PART I

INDEX TO FINANCIAL STATEMENTS

	Page Number
Condensed Consolidated Balance Sheets as of June 30, 2020 (Unaudited) and December 31, 2019	5
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019 (Unaudited)	6
Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020 and 2019 (Unaudited)	7
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (Unaudited)	8
Notes to Condensed Consolidated Financial Statements	9

Edison Nation, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,762,337	\$ 412,719
Accounts receivable, net	3,086,195	2,108,099
Inventory	1,190,998	1,369,225
Prepaid expenses and other current assets	1,884,542	917,433
Income tax receivable	147,889	147,889
Total current assets	<u>8,071,961</u>	<u>4,955,365</u>
Property and equipment, net	932,027	931,968
Right of use assets, net	578,280	732,100
Intangible assets, net	11,047,515	11,598,063
Goodwill	5,392,123	5,392,123
Total assets	<u>\$ 26,021,906</u>	<u>\$ 23,609,619</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,047,197	\$ 7,397,650
Accrued expenses and other current liabilities	1,704,484	1,594,669
Deferred revenues	1,061,989	159,591
Current portion of operating leases liabilities	279,427	272,215
Income tax payable	8,446	22,919
Line of credit, net of debt issuance costs of \$0 and \$15,573, respectively	2,151,108	456,995
Current portion of convertible notes payable, net of debt issuance costs of \$535,235	900,765	-
Current portion of notes payable, net of debt issuance costs of \$86,349 and \$212,848, respectively	970,710	1,365,675
Current portion of notes payable – related parties	1,166,365	1,686,352
Due to related party	26,784	17,253
Total current liabilities	<u>11,317,275</u>	<u>12,973,319</u>
Operating leases liabilities – net of current portion	326,482	482,212
Convertible notes payable – related parties, net of current portion, net of debt discount of \$316,667 and \$366,666, respectively	1,111,495	1,061,495
Notes payable, net of current portion	825,004	42,492
Notes payable – related parties, net of current portion	1,501,148	1,595,669
Total liabilities	<u>15,081,404</u>	<u>16,155,187</u>
Commitments and Contingencies (Note 8)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 30,000,000 shares authorized; 0 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	\$ -	\$ -
Common stock, \$0.001 par value, 250,000,000 shares authorized; 9,618,401 and 8,015,756 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	9,618	8,016
Additional paid-in-capital	30,802,083	26,259,575
Accumulated deficit	(18,850,350)	(18,495,461)
Total stockholders' equity attributable to Edison Nation, Inc.	<u>11,961,351</u>	<u>7,772,130</u>
Noncontrolling interests	(1,020,849)	(317,698)
Total stockholders' equity	<u>10,940,502</u>	<u>7,454,432</u>
Total liabilities and stockholders' equity	<u>\$ 26,021,906</u>	<u>\$ 23,609,619</u>

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

Edison Nation, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues, net	\$ 6,880,026	\$ 5,968,255	\$ 10,547,136	\$ 11,706,789
Cost of revenues	4,889,784	3,924,252	7,308,196	7,869,810
Gross profit	<u>1,990,242</u>	<u>2,044,003</u>	<u>3,238,940</u>	<u>3,836,979</u>
Operating expenses:				
Selling, general and administrative	2,770,930	3,392,596	6,963,643	6,441,784
Operating loss	<u>(780,688)</u>	<u>(1,348,593)</u>	<u>(3,724,703)</u>	<u>(2,604,805)</u>
Other (expense) income:				
Rental income	25,703	25,703	51,407	51,407
Interest expense	(847,154)	(401,170)	(1,571,111)	(525,864)
Gain on divestiture	-	-	4,911,760	-
Total other (expense) income	<u>(821,451)</u>	<u>(375,467)</u>	<u>3,392,056</u>	<u>(474,457)</u>
Loss before income taxes	(1,602,139)	(1,724,060)	(332,647)	(3,079,262)
Income tax expense	-	51,005	-	74,200
Net loss	<u>\$ (1,602,139)</u>	<u>\$ (1,775,065)</u>	<u>\$ (332,647)</u>	<u>\$ (3,153,462)</u>
Net income (loss) attributable to noncontrolling interests	<u>22,241</u>	<u>(39,648)</u>	<u>22,241</u>	<u>17,245</u>
Net loss attributable to Edison Nation, Inc.	<u>\$ (1,624,380)</u>	<u>\$ (1,735,417)</u>	<u>\$ (354,888)</u>	<u>\$ (3,170,707)</u>
Net loss per share:				
Net loss per share – basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.30)</u>	<u>\$ (0.04)</u>	<u>\$ (0.55)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>8,920,554</u>	<u>5,702,693</u>	<u>8,551,012</u>	<u>5,682,150</u>

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

Edison Nation, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	For the Three Months Ended June 30, 2020 and 2019					
	Common Stock		Additional	Accumulated	Noncontrolling	Total
	Shares	Amount	Paid-in	Deficit	Interest	Stockholders' Equity
Balance, April 1, 2020	8,676,501	\$ 8,677	\$ 28,790,704	\$ (17,225,970)	\$ (344,090)	\$ 11,229,321
Issuance of common stock to note holders	279,400	279	588,411	-	-	588,690
Issuance of common stock for divestiture	150,000	150	404,850	-	-	405,000
Issuance of common stock to consultants	212,500	212	(212)	-	-	-
Stock-based compensation	-	-	319,630	-	-	319,630
Issuance of common stock for Global Clean Solutions, LLC acquisition	300,000	300	698,700	-	-	699,000
Distributions	-	-	-	-	(699,000)	(699,000)
Net (loss) income	-	-	-	(1,624,380)	22,241	(1,602,139)
Balance, June 30, 2020	<u>9,618,401</u>	<u>\$ 9,618</u>	<u>\$ 30,802,083</u>	<u>\$ (18,850,350)</u>	<u>\$ (1,020,849)</u>	<u>\$ 10,940,502</u>
Balance, April 1, 2019	5,680,330	\$ 5,680	\$ 20,859,158	\$ (7,001,046)	\$ 1,008,469	\$ 14,872,261
Issuance of common stock to note holders	35,000	35	99,165	-	-	99,200
Issuance of common stock to vendors for services	22,500	23	88,602	-	-	88,625
Stock-based compensation	-	-	89,987	-	-	89,987
Net loss	-	-	-	(1,735,417)	(39,648)	(1,775,065)
Balance, June 30, 2019	<u>5,737,830</u>	<u>\$ 5,738</u>	<u>\$ 21,136,912</u>	<u>\$ (8,736,463)</u>	<u>\$ 968,821</u>	<u>\$ 13,375,008</u>

	For the Six Months Ended June 30, 2020 and 2019					
	Common Stock		Additional	Accumulated	Noncontrolling	Total
	Shares	Amount	Paid-in	Deficit	Interest	Stockholders' Equity
Balance, January 1, 2020	8,015,756	\$ 8,016	\$ 26,259,576	\$ (18,495,462)	\$ (317,698)	\$ 7,454,432
Issuance of common stock to note holders	439,400	439	789,575	-	-	790,014
Returned common stock from noteholder	(153,005)	(153)	153	-	-	-
Issuance of common stock for divestiture	150,000	150	404,850	-	-	405,000
Issuance of common stock to consultants	866,250	866	561,896	-	-	562,762
Issuance of warrants to noteholders and beneficial conversion option	-	-	1,018,953	-	-	1,018,953
Issuance of common stock for Global Clean Solutions, LLC acquisition	300,000	300	698,700	-	-	699,000
Stock-based compensation	-	-	1,068,380	-	-	1,068,380
Divestiture of Cloud B	-	-	-	-	(26,392)	(26,392)
Distributions	-	-	-	-	(699,000)	(699,000)
Net (loss) income	-	-	-	(354,888)	22,241	(332,647)
Balance, June 30, 2020	<u>9,618,401</u>	<u>\$ 9,618</u>	<u>\$ 30,802,083</u>	<u>\$ (18,850,350)</u>	<u>\$ (1,020,849)</u>	<u>\$ 10,940,502</u>
Balance, January 1, 2019	5,654,830	\$ 5,655	\$ 20,548,164	\$ (5,565,756)	\$ 951,576	\$ 15,939,639
Issuance of common stock to note holders	50,000	50	173,250	-	-	173,300
Issuance of common stock to vendors for services	33,000	33	141,092	-	-	141,125
Stock-based compensation	-	-	274,406	-	-	274,406
Net loss	-	-	-	(3,170,707)	17,245	(3,153,462)
Balance, June 30, 2019	<u>5,737,830</u>	<u>\$ 5,738</u>	<u>\$ 21,136,912</u>	<u>\$ (8,736,463)</u>	<u>\$ 968,821</u>	<u>\$ 13,375,008</u>

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

Edison Nation, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2020	2019
Cash Flow from Operating Activities		
Net loss attributable to Edison Nation, Inc.	\$ (354,888)	\$ (3,170,707)
Net income attributable to noncontrolling interests	22,241	17,245
Net loss	(332,647)	(3,153,462)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	612,406	633,570
Amortization of financing costs	1,227,046	391,223
Stock-based compensation	1,588,427	708,490
Amortization of right of use asset	153,820	155,408
Gain on divestiture	(4,911,760)	-
Changes in assets and liabilities:		
Accounts receivable	(978,097)	(1,215,155)
Inventory	178,227	(336,544)
Prepaid expenses and other current assets	(967,109)	(561,331)
Accounts payable	(344,847)	1,191,252
Accrued expenses and other current liabilities	1,425,622	480,928
Operating lease liabilities	(148,518)	(144,132)
Due from related party	9,532	(65,600)
Net cash used in operating activities	(2,487,898)	(1,915,353)
Cash Flows from Investing Activities		
Purchases of property and equipment	(61,917)	(106,770)
Net cash used in investing activities	(61,917)	(106,770)
Cash Flows from Financing Activities		
Borrowings under lines of credit, net	1,678,540	240,000
Borrowings under convertible notes payable	1,436,000	1,111,111
Borrowings under notes payable	1,767,352	1,110,000
Repayments under lines of credit	-	(31,542)
Repayments under notes payable	(824,472)	(566,710)
Repayments under notes payable – related parties	(14,508)	(40,997)
Fees paid for financing costs	(143,479)	(427,411)
Net cash provided by financing activities	3,899,433	1,394,451
Net increase (decrease) in cash and cash equivalents	1,349,618	(627,672)
Cash and cash equivalents – beginning of period	412,719	2,052,731
Cash and cash equivalents – end of period	\$ 1,762,337	\$ 1,425,059
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 144,740	\$ 74,908
Income taxes	\$ 235,725	\$ -
Noncash investing and financing activity:		
Shares issued to note holders	\$ -	\$ 173,300
Conversion under notes payable	\$ 424,000	\$ -

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

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED 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 June 30, 2020 and the results of operations, changes in stockholders’ equity, and cash flows for the periods presented. The results of operations for the six and three months ended June 30, 2020 are not necessarily indicative of the operating results for the full fiscal year or 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, 2019. 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, 2019, 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 June 30, 2020, Edison Nation, Inc. had six wholly-owned subsidiaries: S.R.M. Entertainment Limited (“SRM”), Scalematix, LLC (“Scalematix”), Ferguson Containers, Inc. (“Fergco”), CBAV1, LLC (“CB1”), Pirasta, LLC (“Pirasta”) and Edison Nation Holdings, LLC. Edison Nation, Inc. owns 50% of Best Party Concepts, LLC, Ed Roses, LLC and Global Clean Solutions, LLC, all of which are VIE’s. 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.

COVID-19

COVID-19 has caused and continues to cause significant loss of life and disruption to the global economy, including the curtailment of activities by businesses and consumers in much of the world as governments and others seek to limit the spread of the disease, and through business and transportation shutdowns and restrictions on people’s movement and congregation.

As a result of the pandemic, we have experienced, and continue to experience, weakened demand for our traditional products. Many of our customers have been unable to sell our products in their stores and theme parks due to government-mandated closures and have deferred or significantly reduced orders for our products. We expect these trends to continue until such closures are significantly curtailed or lifted. In addition, the pandemic has reduced foot traffic in the stores where our products are sold that remain open, and the global economic impact of the pandemic has temporarily reduced consumer demand for our products as they focus on purchasing essential goods.

In the United States and Asia, many of our key accounts remain closed or are operating at significantly reduced volumes. As a result, we have made the strategic decision to expand our operations through our Edison Nation Medical (“Ed Med”) division. Through Ed Med, the Company wholesales Personal Protective Equipment (“PPE”) products and proprietary branded hand sanitizer through an online portal for hospitals, government agencies and distributors.

Given these factors, the Company anticipates that the greatest impact from the COVID-19 pandemic in fiscal 2020 occurred in the first quarter of 2020 and resulted in a net sales decline as compared to the first quarter of 2019.

In addition, certain of our suppliers and the manufacturers of certain of our products were adversely impacted by COVID-19. As a result, we faced delays or difficulty sourcing products, which negatively affected our business and financial results. Even if we are able to find alternate sources for such products, they may cost more and cause delays in our supply chain, which could adversely impact our profitability and financial condition.

We have taken actions to protect our employees in response to the pandemic, including closing our corporate offices and requiring our office employees to work from home. At our distribution centers, certain practices are in effect to safeguard workers, including a staggered work schedule, and we are continuing to monitor direction from local and national governments carefully. Additionally, our two retail locations have been closed until further notice.

As a result of the impact of COVID-19 on our financial results, and the anticipated future impact of the pandemic, we have implemented cost control measures and cash management actions, including:

- Furloughing a significant portion of our employees; and
- Implementing 20% salary reductions across our executive team and other members of upper level management; and
- Executing reductions in operating expenses, planned inventory levels and non-product development capital expenditures; and
- Proactively managing working capital, including reducing incoming inventory to align with anticipated sales.

Liquidity

For the six months ended June 30, 2020, our operations lost approximately \$3,700,000, of which approximately \$2,200,000 was non-cash and approximately \$366,000 was related to transaction costs and restructuring charges for payroll and rents.

At June 30, 2020, we had total current assets of \$8,071,961 and current liabilities of \$11,317,275 resulting in negative working capital of \$3,245,314, of which \$1,166,365 was related party notes payable. At June 30, 2020, we had total assets of \$26,021,906 and total liabilities of \$15,081,404 resulting in stockholders’ equity of \$10,940,502.

The foregoing factors raise substantial doubt about the Company’s ability to continue as a going concern for at least the next twelve months from the date of issuance of these condensed consolidated financial statements. 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 condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The following is additional information on our operating losses and working capital:

The Company’s operating loss for the six months ended June 30, 2020 included \$3,600,000 related to depreciation, amortization (including amortization for financing costs and

right of use asset) and stock-based compensation. In addition, approximately \$366,000 was related to transaction costs, restructuring charges and other non-recurring and redundant costs which are being removed or reduced.

Management has considered possible mitigating factors within our management plans 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 for at least the next twelve months from the date these condensed consolidated financial statements are available:

- Subsequent to June 30, 2020, the Company borrowed \$200,000 through a loan agreement and received \$250,000 through the exercise of a warrant.
- Raise further capital through the sale of addition equity.
- Borrow money under debt securities.
- The deferral of payments to related party debt holders for both principal of \$2,667,513 and related interest expense.
- Annual cost saving initiatives related to synergies and the elimination of redundant costs of approximately \$1,500,000.
- Possible sale of certain brands to other manufacturers.
- Edison Nation Medical's procurement of Personal Protective Equipment ("PPE") and hand sanitizers and the subsequent sale of PPE items and hand sanitizers to governmental agencies, educational facilities, medical facilities and distributors.
- Entry into joint ventures or total/partial acquisitions of operational entities to expand the sale of PPE and proprietary hand sanitizer through Edison Nation Medical.

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.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED 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.

Variable Interest Entity Assessment

A VIE is an entity (a) that has total equity at risk that is not sufficient to finance its activities without additional subordinated financial support from other entities, (b) where the group of equity holders does not have the power to direct the activities of the entity that most significantly impact the entity's economic performance, or the obligation to absorb the entity's expected losses or the right to receive the entity's expected residual returns, or both, or (c) where the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. In order to determine if an entity is considered a VIE, the Company first performs a qualitative analysis, which requires certain subjective decisions regarding its assessments, including, but not limited to, the design of the entity, the variability that the entity was designed to create and pass along to its interest holders, the rights of the parties, and the purpose of the arrangement. If the Company cannot conclude after a qualitative analysis whether an entity is a VIE, it performs a quantitative analysis. The qualitative analysis considered the design of the entity, the risks that cause variability, the purpose for which the entity was created, and the variability that the entity was designed to pass along to its variable interest holders.

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 \$928,000 not covered by FDIC insurance limits as of June 30, 2020 of which approximately \$113,000 was held in foreign bank accounts.

Accounts Receivable

As of June 30, 2020, the following customer represented more than 10% of total accounts receivable:

	<u>June 30, 2020</u>
Customer:	
Customer A	14%

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. and Subsidiaries
NOTES TO THE CONDENSED 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 is 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 and six months ended June 30, 2020 and 2019 was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Product sales	\$ 6,829,111	\$ 5,845,651	\$ 10,456,012	\$ 11,483,001
Service	-	22,714	-	48,311
Licensing	50,915	99,890	91,124	175,477
Total revenues, net	<u>\$ 6,880,026</u>	<u>\$ 5,968,255</u>	<u>\$ 10,547,136</u>	<u>\$ 11,706,789</u>

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the three and six months ended June 30, 2020 and 2019, the following customer represented more than 10% of total net revenues:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Customer:				
Customer A	* %	27%	* %	25%
Customer B	11%	*	*	*
Customer C	11%	*	*	*

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

For the three and six months ended June 30, 2020 and 2019, the following geographical regions represented more than 10% of total net revenues:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Region:				
North America	98%	73%	93%	75%
Europe	*	18%	*	18%

* 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.

Sequencing Policy

Under ASC 815-40-35, the Company follows a sequencing policy whereby, in the event that reclassification of contracts from equity to assets or liabilities is necessary pursuant to ASC 815 due to the Company’s inability to demonstrate it has sufficient authorized shares as a result of certain securities with a potentially indeterminable number of shares, shares will be allocated on the basis of the earliest issuance date of potentially dilutive instruments, with the earliest grants receiving the first allocation of shares. Pursuant to ASC 815, issuance of securities to the Company’s employees or directors are not subject to the sequencing policy.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 and six months ended June 30, 2020 and 2019 and the cumulative translation gains and losses as of June 30, 2020 and December 31, 2019 were not material.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Net Earnings or Loss per Share

Basic net income (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 June 30, 2020 and 2019, the Company excluded the common stock equivalents summarized below, which entitled 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.

	June 30, 2020	June 30, 2019
Selling Agent Warrants	160,492	65,626
Shares reserved in exchange for the cancellation of certain non-voting membership interest in Edison Nation Holdings, LLC	990,000	990,000
Options	80,000	290,000
Convertible shares under notes payable	999,536	285,632
Warrants for noteholders	750,000	
Restricted stock units	270,000	-
Shares to be issued	46,500	20,000
Total	3,296,528	1,651,258

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Recent Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), 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. The Company adopted this accounting guidance in the first quarter of 2020 and the adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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. The Company adopted this accounting guidance in the first quarter of 2020 and the adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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 adopted this accounting guidance in the first quarter of 2020 and the adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In July 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): Part 1 – Accounting for Certain Financial Instruments with Down Round Features and Part 2 – Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with Scope Exception (“ASU No. 2017-11”). Part 1 of ASU No. 2017-11 addresses the complexity of accounting for certain financial instruments with down round features. Down round features are provisions in certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of ASU No. 2017-11 addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification®. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments in Part II of this update do not require any transition guidance because those amendments do not have an accounting effect. The Company adopted this accounting guidance in the first quarter of 2020 and the adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED 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. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Acquisitions and Divestitures

Divestiture of Subsidiary

On February 17, 2020, the Company divested its Cloud B, Inc. subsidiary and entered into an Agreement for the Purchase and Sale of Cloud B, Inc. (the “Purchase Agreement”), with Pearl 33 Holdings, LLC (the “Buyer”), pursuant to which the Buyer purchased from the Company (and the Company sold and assigned) 80,065 shares of common stock of Cloud B (the “Cloud B Shares”) for \$1.00 and an indemnification agreement as described below, constituting a 72.15% ownership interest in Cloud B, based on 110,964 shares of Cloud B’s common stock outstanding as of February 17, 2020. In accordance with the agreement, all of the liabilities of Cloud B were assumed by Pearl 33.

On February 17, 2020, as part of the sale of Cloud B, Inc., the Company entered into an indemnification agreement with Pearl 33 Holdings, LLC in connection with the divestiture of Cloud B, Inc., whereby pursuant to such agreement the Company is limited to the issuance of 150,000 shares of the Company’s common stock to the Buyer for indemnification of claims against Cloud B Inc. In addition, the Company shall indemnify the Buyer for expenses (including attorneys’ fees and all other costs, expenses and obligations) in connection with defending any Claim in connection with the Cloud B. The Company has recorded \$405,000 related to the fair value of the 150,000 shares of common stock which were issued to the Buyer on June 30, 2020.

The table below shows the assets and liabilities that the Company was relieved of in the transaction:

	February 17, 2020
Accounts payable	4,005,605
Accrued Expenses	370,289
Income Tax Payable	14,473
Notes Payable	900,000
Non-Controlling Interest	26,393
Shares to be issued to Buyer	(405,000)
Gain on divestiture	\$ 4,911,760

On March 11, 2020, the Company issued 238,750 shares of our common stock to acquire the assets of HMNRTH, LLC. On July 1, 2020, the Company made payment in the amount of \$70,850 to the principals of HMNRTH, LLC. The transaction was treated as an asset purchase and not accounted for as a business combination due to the limited inputs, processes and outputs, which did not meet the requirements to be a business.

Note 4 — Variable Interest Entities

The Company is involved in the formation of various entities considered to be Variable Interest Entities (“VIEs”). The Company evaluates the consolidation of these entities as required pursuant to ASC Topic 810 relating to the consolidation of VIEs. These VIEs are primarily partnerships formed to supply consumer goods to through various distribution and retail channels.

The Company’s determination of whether it is the primary beneficiary of VIE is based in part on an assessment of whether or not the Company and its related parties are exposed to the majority of the risks and rewards of the entity. Typically, the Company is entitled to substantially all or portion of the economics of these VIEs. The Company is the primary beneficiary of the VIE entities.

The following table presents the carrying values of the assets and liabilities of entities that are VIEs and consolidated by the Company at June 30, 2020:

	June 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 802,033	\$ 6,234
Accounts receivable, net	955,246	21,697
Inventory	20,623	51,090
Prepaid expenses and other current assets	1,412,728	379,561
Total current assets	3,190,630	458,582
Property and equipment, net	24,001	32,661
Total assets	\$ 3,214,631	\$ 491,243
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	\$ 194,738	\$ 337,648
Accrued expenses and other current liabilities	15,806	-
Deferred revenues	907,500	-
Line of credit, net of debt issuance costs of \$0 and \$15,573, respectively	1,690,945	-
Notes payable, current	150,000	-
Due to related party	315,666	315,666
Total current liabilities	3,274,655	12,973,319

The following table presents the operations of entities that are VIEs and consolidated by the Company at June 30, 2020:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2020	2019	2020	2019
Revenues, net	\$ 1,051,945	\$ 80,120	\$ 1,274,477	\$ 285,542
Cost of revenues	789,000	49,590	994,923	124,659
Gross profit	262,945	30,530	279,554	160,883

Operating expenses:

Selling, general and administrative	136,648	100,961	203,562	192,699
Operating income	<u>126,297</u>	<u>(70,431)</u>	<u>75,992</u>	<u>(31,816)</u>
Other (expense) income:				
Interest expense	(21,331)	-	(56,956)	-
Total other (expense) income	<u>(21,331)</u>	<u>-</u>	<u>(56,956)</u>	<u>-</u>
Loss before income taxes	104,966	(70,431)	19,036	(31,816)
Income tax expense	-	-	-	-
Net income	\$ 104,966	\$ (70,431)	\$ 19,036	\$ (31,816)

At June 30, 2020 and December 31, 2019, there were no unconsolidated VIEs for which the Company holds a variable interest.

On May 20, 2020 (the "Effective Date"), Edison Nation, Inc. (the "Company") entered into an Agreement and Plan of Share Exchange (the "Share Exchange Agreement") with PPE Brickell Supplies, LLC, a Florida limited liability company ("PPE"), and Graphene Holdings, LLC, a Wyoming limited liability company ("Graphene", and together with PPE, the "Sellers"), whereby the Company purchased 25 membership units of Global Clean Solutions, LLC, a Nevada limited liability company ("Global") from each of PPE and Graphene, for a total of fifty (50) units, representing fifty percent (50%) of the issued and outstanding units of Global (the "Purchase Units"). The Company issued 250,000 shares of its restricted common stock, \$0.001 par value per share (the "Common Stock") to PPE, and 50,000 shares of Common Stock to Graphene, in consideration for the Purchase Units. Global Clean Solutions, LLC is a VIE. The fair value of the shares of \$699,000 was treated as a distribution to the noncontrolling interest members.

Pursuant to the terms of the Share Exchange Agreement, the Sellers may earn additional shares of Common Stock upon Global realizing the following revenue targets: (i) In the event that Global's total orders equal or exceed \$1,000,000, Graphene shall receive 200,000 shares of Common Stock; (ii) In the event that Global's total orders equal or exceed \$10,000,000, PPE shall receive 100,000 shares of restricted Common Stock; and (iii) In the event that Global's total orders equal or exceed \$25,000,000, Graphene shall receive 125,000 shares of restricted Common Stock. Additionally, the Company shall be entitled to appoint two managers to the Board of Managers of Global. The fair value of the shares is expensed over the estimated vesting period and is adjusted based on the number of shares that vest.

Amended Limited Liability Company Agreement

On the Effective Date, the Company entered into an Amended Limited Liability Company Agreement of Global (the "Amended LLC Agreement"). The Amended LLC Agreement amends the original Limited Liability Company Agreement of Global, dated May 13, 2020. The Amended LLC defines the operating rules of Global and the ownership percentage of each member: Edison Nation, Inc. 50%, PPE 25% and Graphene 25%.

Secured Line of Credit Agreement

On the Effective Date, the Company (as "Guarantor") entered into a Secured Line of Credit Agreement (the "Credit Agreement") with Global and PPE. Under the terms of the Credit Agreement, PPE is to make available to Global a revolving credit loan in a principal aggregate amount at any one time not to exceed \$2,500,000. Upon each drawdown of funds against the credit line, Global shall issue a Promissory Note (the "Note") to PPE. The Note shall accrue interest at 3% per annum and have a maturity date of six (6) months. In the event of a default, any and all amounts due to PPE by Global, including principal and accrued but unpaid interest, shall increase by forty (40%) percent and the interest shall increase to five (5%) percent (the "Default Interest").

Security Agreement

On the Effective Date, the Company (as "Guarantor") entered into a Security Agreement (the "Security Agreement") with Global (as "Borrower") and PPE as the secured party, whereby the Company placed 1,800,000 shares of Common Stock (the "Reserve Shares") in reserve with its transfer agent in the event of default under the Credit Agreement. In the event of a default that is not cured by the defined cure period, the PPE may liquidate the Reserve Shares until the Global's principal, interest and associated expenses are recovered. The number of Reserve Shares may be increased through the issuance of True-Up shares in the event the original number of Reserve Shares is insufficient.

Note 5 — Accounts Receivable

As of June 30, 2020 and December 31, 2019, accounts receivable consisted of the following:

	June 30, 2020	December 31, 2019
Accounts receivable	\$ 3,163,956	\$ 2,185,859
Less: Allowance for doubtful accounts	(77,761)	(77,760)
Total accounts receivable, net	<u>\$ 3,086,195</u>	<u>\$ 2,108,099</u>

Note 6 — Inventory

As of June 30, 2020 and December 31, 2019, inventory consisted of the following:

	June 30, 2020	December 31, 2019
Raw materials	\$ 25,648	\$ 49,232
Finished goods	1,265,350	1,419,993
Reserve for obsolescence	(100,000)	(100,000)
Total inventory	<u>\$ 1,190,998</u>	<u>\$ 1,69,225</u>

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Debt

As of June 30, 2020 and December 31, 2019, debt consisted of the following:

	June 30, 2020	December 31, 2019
Line of credit:		
Secured line of credit	\$ 1,690,945	\$ -
Receivables financing	460,163	472,567
Debt issuance costs	-	(15,573)
Total lines of credit	2,151,108	456,995
Convertible notes payable:		
Senior convertible notes payable – related parties	1,428,161	1,428,161
Senior convertible notes payable	1,100,000	-
Convertible notes payable	336,000	-
Debt issuance costs	(851,901)	(366,666)
Total convertible notes payable	2,012,260	1,061,495
Less: current portion of long-term convertible notes payable	(900,765)	-
Noncurrent portion of long-term convertible notes payable	1,111,495	1,061,495
Notes payable:		
Notes payable	1,882,064	1,621,015
Debt issuance costs	(86,350)	(212,848)
Total long-term debt	1,795,714	1,408,167
Less: current portion of long-term debt	(970,710)	(1,365,675)
Noncurrent portion of long-term debt	825,004	42,492
Notes payable – related parties:		
Notes payable	2,667,513	3,282,021
Less: current portion of long-term debt – related parties	(1,166,365)	(1,686,352)
Noncurrent portion of long-term debt – related parties	\$ 1,501,148	\$ 1,595,669

Convertible Notes Payable

On January 23, 2020, Edison Nation, Inc. (the “Company”) entered into a \$1,100,000 loan agreement (the “Loan Agreement”) with Greentree Financial Group, Inc. (the “Investor”), pursuant to which the Investor purchased a 10% Convertible Promissory Note (the “Note”) from the Company, and the Company issued to the Investor a three year warrant (the “Warrant”) to purchase 550,000 shares of the Company’s common stock, \$0.001 per share (“Common Stock”). The Note is convertible at any time at a price of \$2.00 per share, subject to certain adjustments to the conversion price set forth in the Note. The Note reiterates the registration rights set forth in the Loan Agreement and the Warrant. There is no prepayment penalty on the Note. If the Note is not prepaid by the 90th day after the effective date of the Registration Statement, the Investor is required to convert the entire amount of principal and interest outstanding on the Note at that time, at a price of \$2.00 per share, unless an event of default (as such events are described in the Note) under the Note has occurred, in which case the Note would be mandatorily converted at a price equal to 50% of the lowest trading price of the Common Stock for the last 10 trading days immediately prior to, but not including, the date that the Note mandatorily converts. In the event that the average of the 15 lowest closing prices for the Company’s common stock on NASDAQ or other primary trading market for the Company’s common stock (the average of such lowest closing prices being herein referred to, the “True-up Price”) during the period beginning on the effective date of the Registration Statement and ending on the 90th day after the effective date of the Registration Statement (the “Subsequent Pricing Period”) is less than \$2.00 per share, then the Company will issue the Lender additional shares of the Company’s common stock (the “True-up Shares”) within three days. No value has been assigned to the True-up Shares due to the contingency of an effective Registration Statement. The warrant has an exercise price of \$2.00 per share, subject to certain adjustments to the exercise price set forth in the Warrant. The Warrant, as amended, expires on January 23, 2023. If the closing price per share of the Common Stock reported on the day immediately preceding an exercise of the Warrant is greater than \$2.00 per share, the Warrant may be exercised cashlessly, based on a cashless exercise formula. The Warrant reiterates the registration rights set forth in the Loan Agreement and the Note. The Warrant also contains a repurchase provision, which at any time after the Registration Statement is effective and the Common Stock has traded at a price over \$3.00 share for 20 consecutive days, gives the Company a 30-day option to repurchase any unexercised portion of the Warrant at a price of \$1.00 per share. The \$1,100,000 of proceeds from the Note will be used for general working capital purposes and for the repayment of debt. On January 24, 2020, the Company used \$588,366 of the proceeds from the Note to pay off in full the 12% Convertible Promissory Note held by Labrys Fund, LP. Upon execution of the Loan Agreement, the Company issued to the Investor 100,000 shares of Common Stock (the “Origination Shares”) as an origination fee, plus an additional 60,000 shares of Common Stock as consideration for advisory services. Pursuant to the Loan Agreement, the Company agreed to issue and sell to the Investor the Note, in the principal amount of \$1,100,000.

On January 29, 2020, the Company and Greentree Financial Group, Inc. (the “Investor”), entered into an Amendment Agreement, amending the January 22, 2020 Loan Agreement, the Note, and the Warrant to: (i) correct the effective date set forth in the Loan Agreement, Note and Warrant to January 23, 2020 and the due date to October 23, 2020, (ii) clarify the terms of the registration right provision in the Loan Agreement such that the Company was required to register a total of 1,500,000 shares of Common Stock, which such amount of shares is the sum of 550,000 shares of Common Stock issuable upon conversion of the Note, 550,000 Warrant Shares, the 100,000 Origination Shares, and 300,000 shares of Common Stock to account for changes to the conversion and/or exercise price under the Note and Warrant, and (iii) to ensure that the total number of shares of Common Stock issued pursuant to the Loan Agreement, the Note, and/or the Warrant, each as amended, does not exceed 17.99% of the Company’s issued and outstanding Common Stock as of January 23, 2020. The Company is subject to a \$35,000 penalty on a monthly basis if a registration statement is not effective after 105 days from January 23, 2020. The Company recognized a beneficial conversion option of \$586,785 related to the 550,000 shares of Common Stock issuable upon conversion of the Note, a debt discount of \$296,891 based on the relative fair value related to the 550,000 Warrant Shares, a debt discount of \$201,324 based on the relative fair value related to the 160,000 Origination and Advisory Shares.

On April 7, 2020, the Company entered into a Securities Purchase Agreement (the “Agreement”) with Jefferson Street Capital, LLC (the “Investor”) wherein the Company issued the Investor a Convertible Promissory Note (the “Note”) in the amount of \$168,000 (\$18,000 OID). The \$150,000 of proceeds from the Note will be used for general working capital purposes. The Note has a term of six (6) months, is due on October 7, 2020 and has a one-time interest charge of 2%. In addition, the Company issued the Investor 10,700 shares of Common Stock (the “Origination Shares”) as an origination fee. The transaction closed on April 9, 2020. The Investor shall have the right at any time to convert all or any part of the outstanding and unpaid principal, interest, fees, or any other obligation owed pursuant to this Note into fully paid and non-assessable shares of Common Stock at a conversion price equal to \$2.05 per share. Upon an Event of Default, the Conversion Price shall equal the Alternate Conversion Price (as defined herein) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower’s securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The “Alternate Conversion Price” shall equal the lesser of (i) 80% multiplied by the average of the three lowest daily volume weighted average prices (“VWAP”) during the previous twenty (20) Trading Days (as defined below) before the Issue Date of this Note (representing a discount rate of 20%) or (ii) 80% multiplied by the Market Price (as defined herein) (representing a discount rate of 20%). “Market Price” means the average of the three lowest daily VWAPs for the Common Stock during the twenty (20) Trading Day period ending on the latest complete Trading Day prior to the

Conversion Date.

On April 7, 2020, the Company entered into a Securities Purchase Agreement (the “Agreement”) with BHP Capital NY Inc. (the “Investor”) wherein the Company issued the Investor a Convertible Promissory Note (the “Note”) in the amount of \$168,000 (\$18,000 OID). The \$150,000 of proceeds from the Note will be used for general working capital purposes. The Note has a term of six (6) months, is due on October 7, 2020 and has a one-time interest charge of 2%. In addition, the Company issued the Investor 10,700 shares of Common Stock (the “Origination Shares”) as an origination fee. The transaction closed on April 9, 2020. The Investor shall have the right at any time to convert all or any part of the outstanding and unpaid principal, interest, fees, or any other obligation owed pursuant to this Note into fully paid and non-assessable shares of Common Stock at a conversion price equal to \$2.05 per share. Upon an Event of Default, the Conversion Price shall equal the Alternate Conversion Price (as defined herein) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower’s securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The “Alternate Conversion Price” shall equal the lesser of (i) 80% multiplied by the average of the three lowest daily volume weighted average prices (“VWAP”) during the previous twenty (20) Trading Days (as defined below) before the Issue Date of this Note (representing a discount rate of 20%) or (ii) 80% multiplied by the Market Price (as defined herein) (representing a discount rate of 20%). “Market Price” means the average of the three lowest daily VWAPs for the Common Stock during the twenty (20) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Debt — (Continued)

32E Financing

On December 4, 2019, the Company agreed to issue and sell to 32 Entertainment LLC (“32E”) a 10% Senior Secured Note (the “32E Note”), in the principal amount of \$250,000. The maturity date of the 32E Note is December 4, 2020. In addition, the Company issued to 32E 10,000 shares of common stock as an inducement to 32E to purchase the 32E Note. The \$250,000 of proceeds from the 32E Note was used for general working capital needs of the Company and the repayment of debt related to Horberg Enterprises.

Pursuant to the terms of the 32E Note, on December 4, 2019, the Company also issued 32E a Common Stock Purchase Warrant (the “32E Warrant”) to purchase 50,000 shares of common stock at an exercise price of \$1.50 per share. The 32E Warrant expires on December 4, 2024. The 32E Warrant contains price protection provisions, as well as a provision allowing 32E to purchase the number of shares that 32E could have acquired if it held the number of shares of common stock acquirable upon complete exercise of the 32E Warrant, in the event that the Company grants, issues or sells common stock, common stock equivalents, rights to purchase common stock, warrants, securities or other property pro rate to holders of any class of the Company’s securities. If there is no effective registration statement registering the resale of the shares of common stock underlying the 32E Warrant, then the 32E Warrant may be exercised, based on a cashless exercise formula. The 32E Warrant also contains a conversion limitation provision, which prohibits 32E from exercising the 32E Warrant in an amount that would result in the beneficial ownership of greater than 4.9% of the total issued and outstanding shares of common stock, provided that (i) such exercise limitation may be waived by 32E with 61 days prior notice, and (ii) 32E cannot waive the exercise limitation if conversion of the 32E Warrant would result in 32E having beneficial ownership of greater than 9.9% of the total issued and outstanding shares of common stock.

In connection with the sale of the 32E Note, also on December 4, 2019, the Company entered into a registration rights agreement whereby the Company agreed to register the 10,000 shares of common stock issued to 32E as an inducement on a registration statement on Form S-1 with the SEC. The Company was required to have such registration statement declared effective by the SEC within 90 calendar days (or 180 calendar days in the event of a “full review” by the SEC) following the earlier of 30 days from December 4, 2019 or the filing date of the registration statement on Form S-1, which such registration statement has not been filed or timely declared effective. If the registration statement is not filed or declared effective within the timeframe set forth in the registration rights agreement, the Company was supposed to be obligated to pay to 32E a monthly amount equal to 1% of the total subscription amount paid by 32E until such failure is cured. The Company has not made any such payment 32E. The registration rights agreement also contains mutual indemnifications by the Company and each investor, which the Company believes are customary for transactions of this type.

On May 19, 2020, the Company entered into an Amendment (the “Amendment”) to the 32E Note. Under the terms of the Amendment, the Company issued to 32E an Amended Subordinate Secured Note (the “Replacement Note”) in the principal amount of \$200,000 that accrues interest at 16% annually and matures on May 21, 2021. On May 28, 2020, the Company paid \$50,000 toward the principal plus interest in the amount of \$6,250 for a total of \$56,250. 32E shall also receive 40,000 restricted stock units and surrender the warrant issued to it in the December 4, 2019 financing transaction. The Company accounted for the Amendment as a modification.

Promissory Notes

On January 2, 2020, the Company entered into that certain Loan Agreement with Tiburon Opportunity Fund (the “Lender”), dated January 2, 2020 (the “Loan Agreement”). Pursuant to the terms of the Loan Agreement, the Lender agreed to loan the Company \$400,000. The Loan is interest bearing at the rate of 1.5% per month through the term of the Loan. Additionally, the Loan Agreement provides that the Company shall pay the Lender the entire unpaid principal and all accrued interest upon thirty days’ notice to the Company, but in any event, the notice shall not be sooner than June 1, 2020. On April 24, 2020, the Company and Lender entered into a Debt Conversion Agreement whereby the Lender was given the right and elected to exercise that right to convert principal and interest of \$424,000 of funds loaned to the Company into shares of the Company’s common stock. The fair value of the Company’s common stock was \$2.08 on the date of conversion and the conversion price was \$2.00 per share for a total of 212,000 shares of restricted common stock issued by the Company.

On January 2, 2020, Ed Roses, LLC (the “Partnership”) entered into a Loan Agreement (the “Agreement”) with Sook Hyun Lee (the “Lender”). Under the terms of the Agreement, the Lender agreed to lend \$150,000 to the Partnership for general working capital. The Loan was due on April 15, 2020 (the “Maturity Date”) and accrues interest at 15% per annum. The Agreement shall automatically renew at the Maturity date for successive 90-day periods unless written notice is remitted by either party. On the Maturity date, the Partnership shall pay the Lender all unpaid principal and interest and a \$30,000 commitment fee. The Lender shall have a collateral interest in the accounts receivable of the Partnership, including but not limited to 7 Eleven receivables. As collateral, Edison Nation, Inc. placed 75,000 shares of common stock in reserve.

On January 10, 2020, the Company entered into a 5% Promissory Note Agreement with Equity Trust Company on behalf of Rawleigh Ralls (“Ralls”) for an aggregate principal amount of \$267,000 (the “Ralls Note”), pursuant to which Ralls purchased the Ralls Note from the Company for \$250,000 and an original issue discount of \$17,000, and the Company issued to Ralls a warrant (the “Ralls Warrant”) to purchase 125,000 shares of the Company’s common stock valued at \$86,725 estimated using the Black-Scholes option-valuation model. The proceeds from the Ralls Note will be used for general working capital needs of the Company. The Company will also issue 33,000 incentive shares to Ralls valued at \$79,860 based on the closing stock price on January 10, 2020. The fair value of the warrants and incentive shares have been recorded as debt discount. The maturity date of the Ralls Note is July 10, 2020. Please see **Note 12 — Subsequent Events** for further information.

On January 15, 2020, the Company entered into a 5% Promissory Note Agreement with Paul J. Solit & Julie B. Solit (“Solits”) for an aggregate principal amount of \$107,000 (the “Solit Note”), pursuant to which the Solits purchased the Solit Note from the Company for \$100,000 and an original issue discount of \$7,000, and the Company issued to the Solits a warrant (the “Solit Warrant”) to purchase 50,000 shares of the Company’s common stock valued at \$31,755 estimated using the Black-Scholes option-valuation model. The proceeds from the Solit Note will be used for general working capital needs of the Company. The Company will also issue 13,000 incentive shares to the Solits valued at \$30,420 based on the closing stock price on January 15, 2020. The fair value of the warrants and incentive shares have been recorded as debt discount. The maturity date of the Solit Note is July 15, 2020. Please see **Note 12 — Subsequent Events** for further information.

On January 17, 2020, the Company entered into a 5% Promissory Note Agreement with Richard O’Leary (“O’Leary”) for an aggregate principal amount of \$53,500 (the “O’Leary Note”), pursuant to which O’Leary purchased the O’Leary Note from the Company for \$50,000 and an original issue discount of \$3,500, and the Company issued to O’Leary a warrant (the “O’Leary Warrant”) to purchase 25,000 shares of the Company’s common stock valued at \$16,797 estimated using the Black-Scholes option-valuation model. The proceeds from the O’Leary Note will be used for general working capital needs of the Company. The Company will also issue 6,500 incentive shares to O’Leary valued at \$15,535 based on the closing stock price on January 17, 2020. The fair value of the warrants and incentive shares have been recorded as debt discount. The maturity date of the O’Leary Note is July 17, 2020. Please see **Note 12 — Subsequent Events** for further information.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Debt — (Continued)

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. On January 24, 2020, the Company paid the Investor \$588,366 to pay the Note in full.

Paycheck Protection Program

On April 15, 2020, Edison Nation, Inc. (the “Company”) entered into a loan agreement (“PPP Loan”) with First Choice Bank under the Paycheck Protection Program (the “PPP”), which is part of the recently enacted Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) administered by the United States Small Business Administration (“SBA”). The Company received proceeds of \$789,852 from the PPP Loan. In accordance with the requirements of the PPP, the Company intends to use proceeds from the PPP Loan primarily for payroll costs, subject to thresholds, rent and utilities. The PPP Loan has a 1.00% interest rate per annum and matures on April 15, 2022 and is subject to the terms and conditions applicable to loans administered by the SBA under the PPP. Under the terms of the PPP, certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

Receivables Financing

On February 21, 2020, the Company entered into a receivables financing arrangement for certain receivables of the Company not to exceed \$1,250,000 at any one time. The agreement allows for borrowings up to 85% of the outstanding receivable based on the credit quality of the customer. The fee is between 1% and 2% of the total invoices financed.

In April 2019, we entered into a receivables financing arrangement for certain receivables of the Company. The agreement allows for borrowings 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 invoices financed.

On November 12, 2019, the Company entered into a Receivables Purchase Agreement with a financial institution (the “Receivables Purchase Agreement”), whereby the Company agreed to the sale of \$250,000 of receivables for \$200,000. The proceeds were used for general working capital.

On November 18, 2019, the Company entered into a Future Receivables Purchase Agreement with a financial institution (the “Future Receivables Purchase Agreement”), whereby the Company agreed to the sale of \$337,500 of receivables for \$250,000. The proceeds were used to fund our receivables for overseas distributors. Christopher B. Ferguson, our Chairman and Chief Executive Officer, personally guaranteed the prompt and complete performance of the Company’s obligations under the Future Receivables Purchase Agreement.

Line of Credit

On the Effective Date, the Company (as “Guarantor”) entered into a Secured Line of Credit Agreement (the “Credit Agreement”) with Global and PPE. Under the terms of the Credit Agreement, PPE is to make available to Global a revolving credit loan in a principal aggregate amount at any one time not to exceed \$2,500,000. Upon each drawdown of funds against the credit line, Global shall issue a Promissory Note (the “Note”) to PPE. The Note shall accrue interest at 3% per annum and have a maturity date of six (6) months. In the event of a default, any and all amounts due to PPE by Global, including principal and accrued but unpaid interest, shall increase by forty (40%) percent and the interest shall increase to five (5%) percent (the “Default Interest”).

The scheduled maturities of the debt for the next five years as of December 31, 2019, are as follows:

For the Years Ended December 31,	Amount
2020 (excluding the six months ended June 30, 2020)	3,737,443
2021	206,760
2022	1,419,285
2023	1,440,278
2024	-
Thereafter	-
	<u>6,803,766</u>
Less: debt discount	(595,088)
	<u>\$ 6,208,678</u>

For the three and six months ended June 30, 2020, interest expense was \$847,154 and \$1,571,111, respectively of which \$75,692 and \$152,326 were related party interest expense. For the three and six months ended June 30, 2019, interest expense was \$401,170 and \$525,864, respectively, of which \$79,374 and \$159,636 was related party interest expense, respectively.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 — Income Taxes

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	For the Six Months Ended June 30,	
	2020	2019
Tax at federal statutory rate	21.0%	21.0%
U.S. income subject to valuation allowance	-21.0%	-21.0%
Foreign tax	0.0%	-1.7%
Effective income tax rate	0.0%	-1.7%

The Company has determined that the gain on divestiture of \$4,911,760 is a taxable transaction to the Company. The tax provision of approximately \$1,030,000 would be offset by the utilization of the Company's net operating loss carryforwards. The Company has sufficient net operating losses carryforwards to cover any tax liabilities generated due to the divestment of Cloud B, Inc. The Company does not have any deferred income tax expense from the gain due to the Company recording a full valuation allowance against all net operating losses in prior periods.

Note 9 — Related Party Transactions

NL Penn Capital, LP and SRM Entertainment Group LLC

As of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, the net amount due to related parties was \$57,784 and \$17,253, respectively. Such amounts are due currently. NL Penn and affiliated entities may lend additional capital to Edison Nation pursuant to terms and conditions similar to the current working capital lenders to Edison Nation such as Franklin Capital. In addition, Edison Nation borrows working capital from Franklin Capital, and Mr. Ferguson is a personal guarantor on the working capital facility provided to Edison Nation by Franklin Capital.

Note 10 — 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 June 30, 2020, the Company recorded operating lease liabilities of \$326,482 and right of use assets for operating leases of \$578,280. During the three and six months ended June 30, 2020, operating cash outflows relating to operating lease liabilities was \$81,105 and \$164,091, respectively, and the expense for right of use assets for operating leases was \$75,997 and \$153,818, respectively. As of June 30, 2020, 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.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Commitments and Contingencies — (Continued)

On June 6, 2018, the Company's wholly owned subsidiary, Best Party Concepts, LLC, entered into a lease for office space in Newtown, PA, which expired on May 30, 2020 and was not renewed.

Total rent expense for the three and six months ended June 30, 2020 was \$122,943 and \$269,709, respectively. Total rent expense for the three and six months ended June 30, 2019 was \$138,070 and \$282,503, respectively. Rent expense is included in general and administrative expense on the consolidated statements of operations.

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 and six months ended June 30, 2020 and 2019 was both \$25,703 and \$51,407, 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.

On April 14, 2020, Oceanside Traders, LLC ("Plaintiff") filed a complaint against Cloud B, Inc. and Edison Nation, Inc. (together the "Defendants") with the Superior Court of Ocean County, New Jersey alleging a breach of contract in that the Defendants failed to pay Plaintiff for goods sold in the amount of \$141,007 plus \$138,180 for overpayments and \$279,187 for lost profits for a total of \$443,383. A default judgment was entered against Edison Nation in the case in the amount of \$284,248.91. The same day the default judgment was entered, the Company filed a motion to vacate on the grounds that Edison Nation was not properly served with the complaint.

On March 13, 2019, Rosenberg Fortuna & Laitman LLP and Mark Principe (together the "Plaintiffs") filed a complaint against Safe TV Shop, LLC (the "Defendant") with the Supreme Court of the State of New York, County of Nassau alleging a breach of indemnification arising out of the use of a certain packaging material. On February 12, 2020, the parties entered a Stipulation and Settlement and Consent Agreement, whereby the Plaintiff entered into a Consent Judgment in the amount of \$50,000. The Company has accrued \$50,000 for the amount of the judgment, but there have been no operations by the Plaintiff since the date of acquisition by the Company.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — Stockholders' Equity

Preferred Stock

On March 25, 2020, the Company filed a certificate of amendment to the Company's articles of incorporation with the Secretary of State of the State of Nevada in order to: (i) increase the number of shares of the Company's authorized preferred stock, par value \$0.001 per share, from 0 shares to 30,000,000 shares of preferred stock; (ii) clarify the application of the forum selection clause in the Company's amended and restated articles of incorporation, specifically that such clause does not apply to federal causes of actions arising under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and (iii) include affirmative changes to correspond to the Company's First Amended and Restated Bylaws, confirming that the Company's shareholders may vote by written consent. As of June 30, 2020 and December 31, 2019, there were 0 shares of preferred stock issued and outstanding, respectively.

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 is 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 six months ended June 30, 2020:

	Shares	Weighted Average Exercise Price	Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance, January 1, 2020	80,000	\$ 7.01	3.7	-
Granted	-	-	-	-
Balance, June 30, 2020	80,000	\$ 7.01	3.5	-
Exercisable, June 30, 2020	53,333	\$ 7.01	3.5	-

As of June 30, 2020, there were 26,667 unvested options to purchase shares of the Company's common stock or \$15,535 of total unrecognized equity-based compensation expense that the Company expected to recognize over a remaining weighted-average period of 1 year.

From time to time, the Company grants shares of common stock to consultants and non-employee vendors for services performed. The awards are valued at the market value of the underlying common stock at the date of grant and vest based on the terms of the contract which is usually upon grant.

Edison Nation, Inc. and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 12 — Subsequent Events

On July 2, 2020, the Company issued 6,500 shares of common stock valued at \$15,535 as incentive shares in connection with the O’Leary financing.

On July 6, 2020, the Company issued 25,000 shares of common stock valued at \$61,000 to a Consultant for consulting services.

On July 14, 2020, the Company entered into an Amendment to Note Agreement and Common Stock Purchase Warrant (the “Amendment”) with Richard O’Leary. Under the terms of the Amendment, the parties amended the terms of the January 17, 2020 Note Agreement (the “Agreement”) and Common Stock Purchase Warrant (the “Warrant”) such that; (i) the maturity date of the Agreement was extended to January 17, 2021, (ii) the Original Issue Discount (“OID”) shall be increased to \$7,000, (iii) the Lender shall be issued 6,500 Additional Incentive Shares and (iv) the expiration date of the Warrant shall be extended to June 30, 2021. On July 14, 2020, the Company issued the 6,500 Additional Incentive Shares valued at \$24,570.

On July 14, 2020, the Company entered into an Amendment to Note Agreement and Common Stock Purchase Warrant (the “Amendment”) with Equity Trust Company, a Custodian FBO: Rawleigh H. Ralls IRA. Under the terms of the Amendment, the parties amended the terms of the January 10, 2020 Note Agreement (the “Agreement”) and Common Stock Purchase Warrant (the “Warrant”) such that; (i) the maturity date of the Agreement was extended to January 10, 2021, (ii) the Original Issue Discount (“OID”) shall be increased to \$34,000, (iii) the Lender shall be issued 33,000 Additional Incentive Shares and (iv) the Company shall prepare and file with the United States Securities and Exchange Commission a registration statement on Form S-1 within 30 days of the Effective Date of the Amendment, that registers a total of 191,000 shares of Common Stock, which such amount of shares is the sum of 125,000 Warrant Shares, the 33,000 Incentive Shares, and 33,000 Additional Incentive Shares. On July 14, 2020, the Company issued the 33,000 Additional Incentive Shares valued at \$124,740.

On July 14, 2020, the Company entered into an Amendment to Note Agreement and Common Stock Purchase Warrant (the “Amendment”) with Paul J. Solit and Julie B. Solit. Under the terms of the Amendment, the parties amended the terms of the January 15, 2020 Note Agreement (the “Agreement”) and Common Stock Purchase Warrant (the “Warrant”) such that; (i) the maturity date of the Agreement was extended to December 15, 2020, (ii) the Original Issue Discount (“OID”) shall be increased to \$14,000 and (iii) the Lender shall be issued 13,000 Additional Incentive Shares. On July 14, 2020, the Company issued the 13,000 Additional Incentive Shares valued at \$49,140.

On July 23, 2020, the Company issued 320,000 shares of common stock valued at \$1,158,400 to a note holder to satisfy \$360,000 principal and \$131,889 interest and fees against a note issued on January 23, 2020.

On July 24, 2020, the Company issued 113,312 shares of common stock valued at \$379,595 to a Consultant for consulting services based on achieving set revenue targets within the agreement.

On July 24, 2020, the Company issued 113,312 shares of common stock valued at \$379,595 to a Consultant for consulting services based on achieving set revenue targets within the agreement.

On July 29, 2020, the Company issued Jefferson Street Capital, LLC (the “Investor”) a Convertible Promissory Note (the “Note”) in the amount of \$224,000 (\$24,000 OID) under the terms of the April 7, 2020 Securities Purchase Agreement entered into by the parties. The \$200,000 of proceeds from the Note will be used for general working capital purposes. The Note has a term of six (6) months, is due on January 29, 2021 and has a one-time interest charge of 2%. In addition, the Company issued the Investor 14,266 shares of Common Stock (the “Origination Shares”) as an origination fee. The transaction closed on July 31, 2020. With regard to conversion of the Note, the Investor shall not have the right to convert the Note into shares prior to 180 calendar days from the Issue Date. Provided that the Note remains unpaid, the Investor may elect to convert all or any part of the outstanding and unpaid principal, interest, fees, or any other obligation owed pursuant to this Note into fully paid and non-assessable shares of Common Stock at a conversion price equal to \$2.05 per share after 180 calendar Days from the Issue Date.

On August 3, 2020, the Company issued 30,000 shares of common stock valued at \$116,700 to a Consultant for advisory services.

On August 4, 2020, the Company issued 20,000 shares of common stock valued at \$75,400 to a Consultant for advisory services.

On August 4, 2020, the Company issued 370,000 shares of common stock valued at \$1,394,900 to a note holder in satisfaction of \$360,000 principal and \$131,889 interest and fees against a note issued on January 23, 2020.

On August 12, 2020, the Company entered into an Amendment to a Purchase of Inventory and Repurchase Agreement (the “Amendment”) dated November 12, 2019. Under the terms of the Amendment, (i) the repurchase date is extended to December 10, 2020; and (ii) the Company agreed to pay the Purchaser-Assignee a commitment fee of \$13,053, and (iii) the Company agreed to pay the Purchaser-Assignee 2% per month for extension periods commencing July 1, 2020 through December 10, 2020.

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 six 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 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, Uber Moms, Lily and Gray 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.

COVID-19

COVID-19 has caused and continues to cause significant loss of life and disruption to the global economy, including the curtailment of activities by businesses and consumers in much of the world as governments and others seek to limit the spread of the disease, and through business and transportation shutdowns and restrictions on people's movement and congregation.

As a result of the pandemic, we have experienced, and continue to experience, weakened demand for our traditional products. Many of our customers have been unable to sell our products in their stores and theme parks due to government-mandated closures and have deferred or significantly reduced orders for our products. We expect these trends to continue until such closures are significantly curtailed or lifted. In addition, the pandemic has reduced foot traffic in the stores where our products are sold that remain open, and the global economic impact of the pandemic has temporarily reduced consumer demand for our products as they focus on purchasing essential goods.

In the United States and Asia, many of our key accounts remain closed or are operating at significantly reduced volumes. As a result, we have made the strategic decision to expand our operations through our Edison Nation Medical ("Ed Med") division. Through Ed Med, the Company wholesales Personal Protective Equipment ("PPE") products and proprietary branded hand sanitizer through an online portal for hospitals, government agencies and distributors.

Given these factors, the Company anticipates that the greatest impact from the COVID-19 pandemic in fiscal 2020 occurred in the first quarter of 2020 and resulted in a net sales decline as compared to the first quarter of 2019.

In addition, certain of our suppliers and the manufacturers of certain of our products were adversely impacted by COVID-19. As a result, we faced delays or difficulty sourcing products, which negatively affected our business and financial results. Even if we are able to find alternate sources for such products, they may cost more and cause delays in our supply chain, which could adversely impact our profitability and financial condition.

We have taken actions to protect our employees in response to the pandemic, including closing our corporate offices and requiring our office employees to work from home. At our distribution centers, certain practices are in effect to safeguard workers, including a staggered work schedule, and we are continuing to monitor direction from local and national governments carefully. Additionally, our two retail locations have been closed until further notice.

As a result of the impact of COVID-19 on our financial results, and the anticipated future impact of the pandemic, we have implemented cost control measures and cash management actions, including:

- Furloughing a significant portion of our employees; and
- Implementing 20% salary reductions across our executive team and other members of upper level management; and
- Executing reductions in operating expenses, planned inventory levels and non-product development capital expenditures; and
- Proactively managing working capital, including reducing incoming inventory to align with anticipated sales.

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 marketplaces 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

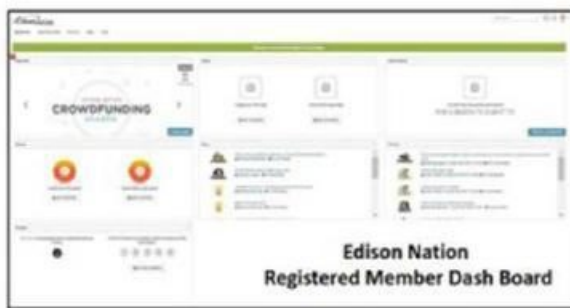
Indeed, the cornerstone of Edison Nation’s competitive advantage is its proprietary and web-enabled new product development (“NPD”) and commercialization platform. The platform can take a product from idea through ecommerce final sale in a matter of months versus a year or more for capital intensive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

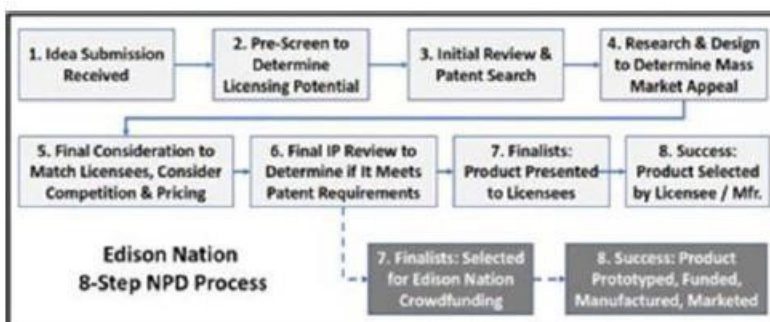
"Insider Membership" is Edison Nation's premium level of membership. Insiders receive feedback on all their ideas submitted and gain access to online features that aren't available to registered members. In addition, Insiders pay \$20 for each idea submitted (20% discount vs. a registered member), can 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 potential for commercialization.

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 web marketplaces 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 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.

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 three manufacturers required to produce Cloud b children's sleep products. 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 “mainstream.”

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.

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.

Cloud B, Inc. Transaction

On October 29, 2018, the Company entered into a Stock Purchase Agreement with a majority of the shareholders (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. CBAV1, LLC, a wholly-owned subsidiary of Edison Nation, Inc., owns the senior secured position on the promissory note to Cloud B, Inc. in the amount of \$2,270,000. In February 2019, CBAV1, LLC, pursuant to an Article 9 foreclosure action, perfected its secured UCC interest in all the assets of Cloud B, Inc. to partially satisfy the outstanding balance on the note and thereby making any payments of such Cloud B trade payables and notes unlikely in the future.

On February 17, 2020, the Company divested its Cloud B, Inc. subsidiary and entered into an Agreement for the Purchase and Sale of Cloud B, Inc. (the “Purchase Agreement”), with Pearl 33 Holdings, LLC (the “Buyer”), pursuant to which the Buyer purchased from the Company (and the Company sold and assigned) 80,065 shares of common stock of Cloud B (the “Cloud B Shares”) for \$1.00, constituting a 72.15% ownership interest in Cloud B, based on 110,964 shares of Cloud B’s common stock outstanding as of February 17, 2020. In accordance with the agreement, all of the liabilities of Cloud B were assumed by Pearl 33.

On February 17, 2020, the Company entered into an indemnification agreement with Pearl 33 Holdings, LLC in connection with the divestiture of Cloud B, Inc., whereby pursuant to such agreement the Company is limited to the issuance of 150,000 shares of the Company’s common stock to the Buyer for indemnification of claims against Cloud B Inc. Please see **Note 3 — Acquisitions and Divestitures** for further information.

HMNRTH, LLC Asset Acquisition

On March 11, 2020, the Company issued 238,750 shares of our common stock to acquire the assets of HMNRTH, LLC. On July 1, 2020, the Company made payment in the amount of \$70,850 to the principals of HMNRTH, LLC. The transaction was treated as an asset purchase and not accounted for as a business combination due to the limited inputs, processes and outputs, which did not meet the requirements to be a business.

Edison Nation Medical Operations

Edison Nation Holdings, LLC formed Edison Nation Medica (“EN Medical”) in May of 2012. It was a partnership between Edison Nation and Carolinas Healthcare Systems (now called Atrium). Atrium is the 2nd largest healthcare system in the US. Carolina Health (Atrium) wanted a way to aggregate and commercialize the healthcare related innovations that were coming from their physicians, nurses, and patients, and Edison Nation offered a platform to provide that function.

EN Medical built out a separate platform, leveraging the Edison Nation model to look for ideas that improved patient care and lowered costs. Over the past three years, EN collected some great ideas, but the market shifted and EN found that the licensing model was very difficult as big medical device companies wanted to acquire companies with sales versus just buying IP and prototypes. In 2019, certain less complex devices such as Ezy Dose have been licensed to third parties by the Company. Additionally, EN Medical has continued to explore opportunities in the health and wellness space for products that do not require FDA approval. Examples of product lines in the health wellness space that are currently being evaluated include an organic skin care line, essential oils, supplements for breast feeding, and an all-natural nutritional supplement.

Based upon the emergence of COVID 19 and the increased demand for certain medical supplies, hand sanitizers and personal protective equipment, Edison Nation made the strategic decision to have EN Medical develop an online portal granting hospitals, government agencies and distributors access to its catalog of medical supplies and hand sanitizers. EN Medical’s website is located at www.edisonnationmedical.com. For purposes of this business description, the activities of EN Medical are inclusive of Global Clean Solutions (“Global”) as well.

EN Medical is focused primarily on its proprietary brand of hand sanitizer, Purple Mountain Clean, that is being produced and sold by the operating subsidiary, Global. The Purple Mountain Clean Brand is 100% USA Made and is offered in both gel and liquid formulas. The Purple Mountain Clean sanitizer is produced with 70% Ethyl Alcohol and is FDA certified. EN Medical offers a variety of sizes and pumps for Purple Mountain Clean and recently initiated the production of sanitizer stands that can be customized with a customer’s logo or other promotional artwork. The launching of our own brand of sanitizer did delay certain shipments for the second quarter as EN Medical needed to develop our specific formulas and packaging for Purple Mountain Clean.

As a secondary focus, EN Medical offers medical supplies and personal protective equipment to government agencies, counties, municipalities and business customers. Since March 2020, EN Medical has established a network of more than thirty suppliers located both domestically and abroad. EN Medical primarily utilizes approximately six core suppliers and has flexibility with its terms based on the specific terms and conditions of the respective purchase orders for the respective end customers. The product lines that have received the highest amount of interest from customers include but are not limited to face coverings, gloves, medical grade gowns, and wipes.

The competitive landscape for sanitizer and personal protective is frequently changing. Recently the FDA announced the recall of numerous hand sanitizer brands. Additionally, many suppliers of personal protective equipment have failed to complete deliveries and failed to meet order specifications for the specific products. EN Medical has benefited from successfully fulfilling orders for government agencies and large business customers that have provided referrals on behalf of EN Medical which has assisted the Company in winning other business opportunities. Due to the high demand for items related to the pandemic, pricing of products can change relatively quickly and customer expectations for delivery times are often aggressive. EN Medical works diligently with its core suppliers to meet these challenges and satisfy all customer requirements in a timely fashion.

EN Medical verifies all FDA certificates of our suppliers and all compliance documents for our manufacturers and importers. For certain product lines, EN Medical may consider applying for its own FDA certifications, and the Company closely monitors the updates with respect to the regulation of personal protective equipment and hand sanitizers.

As reported in our 8-K filing of April 17, 2020, EN Medical received more than ten million dollars in purchase orders for various medical related supplies, personal protective equipment and hand sanitizers. From that date until today, certain of those purchase orders have been shipped and received; certain purchase orders have been amended and remain pending shipment; certain purchase orders have been canceled; additionally new purchase orders have been received and completed; and new purchase orders remain open and pending shipment. Set forth below is a table to update the current status of the purchase orders for EN Medical, which is inclusive of amounts for Global.

<u>Purchase Orders update for the Quarter ended June 30, 2020:</u>	<u>Amounts (\$)</u>
Q2 purchase orders received and completed by June 30, 2020: (1)	\$ 3,920,965
Q2 purchase orders received, amended and pending shipment as of June 30, 2020:	\$ 9,950,000
Q2 purchase orders cancelled as of June 30, 2020:	\$ 2,467,500

(1) Note certain amounts in the above table reflect the net revenue received or due to be received by EN Medical for its services in facilitating the shipment of goods and not the actual dollar value of the goods that were shipped to customers.

<u>Purchase Orders as of the date of this filing:</u>	<u>Amounts (\$)</u>
Purchase orders received subsequent to the quarter ended June 30, 2020:	\$ 34,448,000
Total current purchase orders received and pending shipment as of date of filing:	\$ 44,398,000

With regard to purchase orders completed during the quarter ended June 30, 2020, the product breakdown for EN Medical was as follows:

<u>Products:</u>	<u>Amounts (\$)</u>
Sanitizer	\$ 2,804,019
Gowns	907,500
Gloves	150,000
Masks	59,446
Total	\$ 3,920,965

With regard to purchase orders completed during the quarter ended June 30, 2020, the type of customer for EN Medical was as follows:

<u>Customers:</u>	<u>Amounts (\$)</u>
Government	\$ 2,276,882
Distributors	1,130,107
Enterprise Customers:	276,720
Small Business:	206,077
Education:	31,179
Total	\$ 3,920,965

Global Clean Solutions

On May 20, 2020 (the "Effective Date"), Edison Nation, Inc. (the "Company") entered into an Agreement and Plan of Share Exchange (the "Share Exchange Agreement") with PPE Brickell Supplies, LLC, a Florida limited liability company ("PPE"), and Graphene Holdings, LLC, a Wyoming limited liability company ("Graphene", and together with PPE, the "Sellers"), whereby the Company purchased 25 membership units of Global Clean Solutions, LLC, a Nevada limited liability company ("Global") from each of PPE and Graphene, for a total of fifty (50) units, representing fifty percent (50%) of the issued and outstanding units of Global (the "Purchase Units"). The Company issued 250,000 shares of its restricted common stock, \$0.001 par value per share (the "Common Stock") to PPE, and 50,000 shares of Common Stock to Graphene, in consideration for the Purchase Units. Global Clean Solutions, LLC is a Variable Interest Entity ("VIE").

Pursuant to the terms of the Share Exchange Agreement, the Sellers may earn additional shares of Common Stock upon Global realizing the following revenue targets: (i) In the event that Global's total orders equal or exceed \$1,000,000, Graphene shall receive 200,000 shares of Common Stock; (ii) In the event that Global's total orders equal or exceed \$10,000,000, PPE shall receive 100,000 shares of restricted Common Stock; and (iii) In the event that Global's total orders equal or exceed \$25,000,000, Graphene shall receive 125,000 shares of restricted Common Stock. Additionally, the Company shall be entitled to appoint two managers to the Board of Managers of Global.

Amended Limited Liability Company Agreement

On the Effective Date, the Company entered into an Amended Limited Liability Company Agreement of Global (the "Amended LLC Agreement"). The Amended LLC Agreement amends the original Limited Liability Company Agreement of Global, dated May 13, 2020. The Amended LLC defines the operating rules of Global and the ownership percentage of each member: Edison Nation, Inc. 50%, PPE 25% and Graphene 25%.

Secured Line of Credit Agreement

On the Effective Date, the Company (as "Guarantor") entered into a Secured Line of Credit Agreement (the "Credit Agreement") with Global and PPE. Under the terms of the Credit Agreement, PPE is to make available to Global a revolving credit loan in a principal aggregate amount at any one time not to exceed \$2,500,000. Upon each drawdown of funds against the credit line, Global shall issue a Promissory Note (the "Note") to PPE. The Note shall accrue interest at 3% per annum and have a maturity date of six (6) months. In the event of a default, any and all amounts due to PPE by Global, including principal and accrued but unpaid interest, shall increase by forty (40%) percent and the interest shall increase to five (5%) percent (the "Default Interest").

Security Agreement

On the Effective Date, the Company (as "Guarantor") entered into a Security Agreement (the "Security Agreement") with Global (as "Borrower") and PPE as the secured party, whereby the Company placed 1,800,000 shares of Common Stock (the "Reserve Shares") in reserve with its transfer agent in the event of default under the Credit Agreement. In the event of a default that is not cured by the defined cure period, the PPE may liquidate the Reserve Shares until the Global's principal, interest and associated expenses are recovered. The number of Reserve Shares may be increased through the issuance of True-Up shares in the event the original number of Reserve Shares is insufficient.

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, an annual committee meeting fee of \$5,000, if such director chairs a committee of the board of directors, and an award of options to purchase 20,000 shares of the Company's common stock (the "Options"). The restricted stock underlying such Options were to vest one year after the grant date. However, the Options were never granted.

Accordingly, on November 15, 2019, in lieu of granting the Options, the Company granted the board of directors restricted stock units of 20,000 shares which vested immediately. In addition, on November 15, 2019, the Company granted each non-employee director restricted stock units of 30,000 shares, which vested on January 1, 2020.

Receivables Financing

On February 21, 2020, the Company entered into a receivables financing arrangement for certain receivables of the Company not to exceed \$1,250,000 at any one time. The agreement allows for borrowings up to 85% of the outstanding receivable based on the credit quality of the customer. The fee is between 1% and 2% of the total invoices financed.

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 June 30, 2020 versus Three Months Ended June 30, 2019

The following table sets forth information comparing the components of net (loss) income for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Period over Period Change	
	2020	2019	\$	%
Revenues, net	\$ 6,880,026	\$ 5,968,255	\$ 911,771	15.28%
Cost of revenues	4,889,784	3,924,252	965,532	24.60%
Gross profit	<u>1,990,242</u>	<u>2,044,003</u>	<u>(53,761)</u>	<u>-2.63%</u>
Operating expenses:				
Selling, general and administrative	2,770,930	3,392,596	(621,666)	-18.32%
Operating loss	(780,688)	(1,348,593)	567,905	-42.11%
Other (expense) income:				
Rental income	25,703	25,703	-	0%
Interest expense	(847,154)	(401,170)	(445,984)	111.17%
Gain on divestiture	-	-	-	0%
Total other expense, net	(821,451)	(375,467)	(445,984)	118.78%
Loss before income taxes	(1,602,139)	(1,724,060)	121,921	-7.07%
Income tax expense	-	51,005	(51,005)	-100.00%
Net loss	(1,602,139)	(1,775,065)	172,926	9.74%
Net income (loss) attributable to noncontrolling interests	22,241	(39,648)	61,889	-156.10%
Net loss attributable to Edison Nation, Inc.	<u>\$ (1,624,380)</u>	<u>\$ (1,735,417)</u>	<u>\$ 111,037</u>	<u>-6.40%</u>

Revenue

For the three months ended June 30, 2020, revenues increased by \$911,771 or 15.28%, as compared to the three months ended June 30, 2019. The increase was primarily the result of an increase in business and new customers under the Company's Edison Nation Medical operations. The full impact of the COVID-19 outbreak to the Company's operations remains uncertain. Some of the Company's historically larger customers, such as amusement parks remain closed or operating in a limited capacity. After operating at lower than planned production levels during most of the first quarter due to COVID-19, the Company's third-party manufacturing facilities in China are currently operating at planned capacity for this time of year. Manufacturing and warehouse partners outside of China are operating at varying levels of productivity depending on local government and safety considerations, with some markets operating at lower than normal production levels while other facilities have been closed entirely. The COVID-19 situation continues to be fluid, but the Company currently expects all manufacturing facilities to reopen in the third quarter, based upon the Company's understanding of local governments directions at this time.

Cost of Revenues

For the three months ended June 30, 2020, cost of revenues increased by \$965,532 or 24.60%, as compared to the three months ended June 30, 2019. The increase was primarily attributable to the increase in total consolidated revenues.

Gross Profit

For the three months ended June 30, 2020, gross profit decreased by \$53,761, or 2.63%, as compared to the three months ended June 30, 2019. For the three months ended June 30, 2020, gross margin increased to 28.93%, as compared to 34.25% for the three months ended June 30, 2019. The decrease in gross profit and gross margin was due to product mix of goods sold to customers through our Ferguson Containers and Edison Nation Medical operations.

Operating Expenses

Selling, general and administrative expenses were \$2,770,930 and \$3,392,596 for the three months ended June 30, 2020 and 2019, respectively, representing a decrease of \$621,666, or 18.32%. The decrease was primarily the result of reduction in professional fees of approximately \$649,000 and stock-based compensation of approximately \$210,000 offset by an increase in selling fees related to Amazon of approximately \$265,000 of selling expenses.

Rental Income

Rental income was \$25,703 for both the three months ended June 30, 2020 and 2019.

Interest expense

Interest expense was \$847,154 for the three months ended June 30, 2020 versus \$401,170 in the previous three months ended June 30, 2019. The increase in interest expense was related to increased borrowings of debt during 2020.

Income tax expense

Income tax expense was \$0 for the three months ended June 30, 2020, a decrease of \$51,005 or 100.00%, compared to an expense of \$51,005 for the three months ended June 30, 2019. The decrease was primarily due to the decrease in income from our foreign operations with no offset for income in the United States.

Six Months Ended June 30, 2020 versus Six Months Ended June 30, 2019

The following table sets forth information comparing the components of net (loss) income for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,		Period over Period Change	
	2020	2019	\$	%
Revenues, net	\$ 10,547,136	\$ 11,706,789	\$ (1,159,653)	-9.91%
Cost of revenues	7,308,196	7,869,810	(561,614)	-7.14%
Gross profit	3,238,940	3,836,979	(598,039)	-14.41%
Operating expenses:				
Selling, general and administrative	6,963,643	6,441,784	521,859	8.10%
Operating loss	(3,724,703)	(2,604,805)	(1,119,898)	43.00%
Other (expense) income:				
Rental income	51,407	51,407	-	0%
Interest expense	(1,571,111)	(525,864)	(1,045,247)	198.87%
Gain on divestiture	4,911,760	-	4,911,760	100.00%
Total other income (expense), net	3,392,056	(474,457)	3,866,513	-814.93%
Loss before income taxes	(332,647)	(3,079,262)	2,746,615	-89.20%
Income tax expense	-	74,200	(74,200)	-100.00%
Net loss	(332,647)	(3,153,462)	2,820,815	-89.45%
Net loss attributable to noncontrolling interests	22,241	17,245	4,996	28.97%
Net loss attributable to Edison Nation, Inc.	\$ (354,888)	\$ (3,170,707)	\$ 2,815,819	-88.81%

Revenue

For the six months ended June 30, 2020, revenues decreased by \$1,159,653 or 9.91%, as compared to the six months ended June 30, 2019. The decrease was primarily the result of decrease in business operations in the first quarter due to the COVID-19 pandemic in China and the US offset by an increase in business and new customers under the Company's Edison Nation Medical operations in the second quarter. The full impact of the COVID-19 outbreak to the Company's operations remains uncertain. Some of the Company's historically larger customers, such as amusement parks remain closed or operating in a limited capacity. After operating at lower than planned production levels during most of the first quarter due to COVID-19, the Company's third-party manufacturing facilities in China are currently operating at planned capacity for this time of year. Manufacturing and warehouse partners outside of China are operating at varying levels of productivity depending on local government and safety considerations, with some markets operating at lower than normal production levels while other facilities have been closed entirely. The COVID-19 situation continues to be fluid, but the Company currently expects all manufacturing facilities to reopen in the third quarter, based upon the Company's understanding of local governments directions at this time.

Cost of Revenues

For the six months ended June 30, 2020, cost of revenues decreased by \$561,614 or 7.14%, as compared to the six months ended June 30, 2019. The decrease was primarily attributable to the decrease in total consolidated revenues.

Gross Profit

For the six months ended June 30, 2020, gross profit decreased by \$553,039, or 14.41%, as compared to the six months ended June 30, 2019. For the six months ended June 30, 2020, gross margin decreased to 31.14%, as compared to 32.78% for the six months ended June 30, 2019. The decrease in gross profit and gross margin was due to product mix of goods sold to customers through our Ferguson Containers and Edison Nation Medical operations.

Operating Expenses

Selling, general and administrative expenses were \$6,963,643 and \$6,441,784 for the six months ended June 30, 2020 and 2019, respectively, representing an increase of \$521,859, or 8.10%. The increase was primarily the result of an increase in stock-based compensation of approximately \$873,000, selling fees related to Amazon of approximately \$561,000 of selling expenses offset by a reduction in professional fees of approximately \$727,000 and travel expense of \$118,000.

Rental Income

Rental income was \$51,407 for both the six months ended June 30, 2020 and 2019.

Interest expense

Interest expense was \$1,571,111 for the six months ended June 30, 2020 versus \$525,864 in the previous six months ended June 30, 2019. The increase in interest expense was related to increased borrowings of debt during 2020.

Income tax expense

Income tax expense was \$0 for the six months ended June 30, 2020, a decrease of \$74,200 or 100.00%, compared to an expense of \$74,200 for the six months ended June 30, 2019. 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 and six months ended June 30, 2020 and 2019, EBITDA and Adjusted EBITDA consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net (loss)	\$ (1,602,139)	\$ (1,775,065)	\$ (332,647)	\$ (3,153,462)
Interest expense, net	841,529	401,170	1,571,111	525,864
Income tax expense	-	51,005	-	74,200
Depreciation and amortization	296,108	332,187	612,406	633,570
EBITDA	(458,877)	(990,703)	1,850,870	(1,919,828)
Stock-based compensation	268,916	346,071	1,588,427	708,490
Restructuring and severance costs	189,009	134,597	431,145	170,982
Transaction and acquisition costs	-	-	82,736	223,538
Other non-recurring costs	-	519,191	40,860	623,365
Gain on divestiture	-	-	(4,911,760)	-
Adjusted EBITDA (1)	\$(952)	\$ 9,156	\$(917,722)	\$(193,453)

- (1) On June 8, 2020 the Company entered into a binding memorandum of understanding (the "Agreement") with Office Mart, Inc. (the "Customer") and Zaaz Medical, Inc. (the "Sourcing Partner") (collectively "the Parties") to deliver certain goods to a third party (the "Transaction"). The Company was responsible for bringing the parties together and satisfied its performance obligation under the agreement. On August 10, 2020, the Company entered into an amendment to the Agreement (the "Amendment") related to the Transaction whereas the Company and the Customer agreed to the settlement of the fees earned related to the Transaction of \$907,500 as of June 30, 2020. The Transaction was recorded in accounts receivable and deferred revenues as of June 30, 2020 on the balance sheet with no impact to the condensed consolidated statement of operations. The Company has elected to defer the revenues until cash collection, but had the Company recognized the revenues adjusted EBITDA would have been \$906,548 and \$(10,222) for the three and six months ended June 30, 2020, respectively.

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

Liquidity and Capital Resources

For the six months ended June 30, 2020, our operations lost approximately \$3,700,000, of which approximately \$2,200,000 was non-cash and approximately \$366,000 was related to transaction costs and restructuring charges for payroll and rents.

At June 30, 2020, we had total current assets of \$8,071,961 and current liabilities of \$11,317,725 resulting in negative working capital of \$3,245,314, of which \$1,501,148 was related party notes payable. At June 30, 2020, we had total assets of \$26,021,906 and total liabilities of \$15,081,404 resulting in stockholders' equity of \$10,940,502.

The foregoing factors raise substantial doubt about the Company's ability to continue as a going concern for at least the next twelve months from the date of issuance of these condensed financial statements. 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 condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The following is additional information on our operating losses and working capital:

The Company's operating loss for the six months ended June 30, 2020 included approximately \$3,600,000 related to depreciation, amortization (including amortization for financing costs and right of use asset) and stock-based compensation. In addition, approximately \$366,000 was related to transaction costs, restructuring charges and other non-recurring and redundant costs which are being removed or reduced.

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 for at least the next twelve months from the date these condensed financial statements are available:

- Subsequent to June 30, 2020, the Company borrowed \$200,000 through a loan agreement and received \$250,000 through the exercise of a warrant.
- Raise further capital through the sale of addition equity.
- Borrow money under debt securities.
- The deferral of payments to related party debt holders for both principal of \$2,667,513 and related interest expense.
- Annual cost saving initiatives related to synergies and the elimination of redundant costs of approximately \$1,500,000.
- Possible sale of certain brands to other manufacturers.
- Edison Nation Medical's procurement of Personal Protective Equipment ("PPE") and hand sanitizers and the subsequent sale of PPE items and hand sanitizers to governmental agencies, educational facilities, medical facilities and distributors.
- Entry into joint ventures or total/partial acquisitions of operational entities to expand the sale of PPE through Edison Nation Medical

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 six months ended June 30, 2020 and 2019, our sources and uses of cash were as follows:

Cash Flows from Operating Activities

Net cash used in operating activities for the six months ended June 30, 2020 was \$2,487,898 which included a net loss of \$332,647 that included \$825,190 of cash used by changes in operating assets and liabilities, stock-based compensation of \$1,588,427, depreciation and amortization of \$612,406, amortization of financing costs of \$1,227,046 and amortization of right of use assets of \$153,820 which was offset by a gain on divestiture of a subsidiary of \$4,911,760. Net cash used in operating activities for the six months ended June 30, 2019 was \$1,915,353, which included a net loss of \$3,153,462 that included \$650,582 of cash used by changes in operating assets and liabilities, which were offset by stock-based compensation of \$708,490, depreciation and amortization of \$633,570, amortization of debt issuance costs of \$391,223 and amortization of right of use assets of \$155,408.

Cash Flows from Investing Activities

Net cash used in investing activities was \$61,917 and \$106,770 for the six months ended June 30, 2020 and 2019, 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 six months ended June 30, 2020 totaled \$3,899,433, which related mostly to borrowings under lines of credit, convertible notes and borrowings under notes payable. Cash provided by financing activities for the six months ended June 30, 2019 totaled \$1,394,451 which related mostly to net cash received borrowings under new debt instruments offset by repayments.

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 June 30, 2020, 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 June 30, 2020, 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 June 30, 2020.

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.

Management completed an effective assessment of the Company's internal control over financial reporting based on the 2013 Committee of Sponsoring Organizations (COSO) framework. Management has concluded that as of June 30, 2020, 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. The Company was unable to provide a timely financial reporting package in connection with the year end audit. This was primarily the result of the Company's limited accounting personnel. This also limits the extent to which the Company can segregate incompatible duties and has a lack of controls in place to ensure that all material transactions and developments impacting the financial statements are reflected. There is a risk under the current circumstances that intentional or unintentional errors could occur and not be detected.

In 2019, the Company engaged an outside consultant who assisted in monitoring of our internal controls. The Company integrated to a single ERP system in 2019. The Company is continuing to utilize the services of the consultant for internal controls to further remediate the material weaknesses identified above as 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:

Issuance of common stock – Six months ended June 30, 2020

On January 23, 2020, we issued 160,000 shares of our common stock to Greentree valued at \$374,400 in connection with the Greentree Financing.

On March 16, 2020, we issued 238,750 shares of common stock valued at \$477,500 as per the terms of the Asset Purchase Agreement dated March 11, 2020.

On April 24, 2020, we issued 10,700 shares of our common stock valued at \$21,935 to BHP Capital NY Inc. as origination shares as per the terms of the Securities Purchase Agreement dated April 7, 2020.

On April 24, 2020, we issued 10,700 shares of our common stock valued at \$21,935 to Jefferson Street Capital, LLC as origination shares as per the terms of the Securities Purchase Agreement dated April 7, 2020.

On May 21, 2020, the Company issued 200,000 shares of common stock valued at \$456,000 to PPE Brickell Supplies, LLC as per the terms of the Agreement and Plan of Share Exchange dated May 20, 2020.

On May 21, 2020, the Company issued 50,000 shares of common stock valued at \$114,000 to Graphene Holdings, LLC as per the terms of the Agreement and Plan of Share Exchange dated May 20, 2020.

On May 21, 2020, the Company issued 50,000 shares of common stock valued at \$114,000 to a Consultant for consulting services.

On May 22, 2020, the Company issued 200,000 shares of common stock valued at \$466,000 to Graphene Holdings as per the terms of the Agreement and Plan of Share Exchange dated May 20, 2020.

On June 30, 2020, the Company issued 212,000 shares of common stock valued at \$440,960 to Tiburon Opportunity Fund in satisfaction of a note payable.

On June 30, 2020, the Company issued 150,000 shares of common stock valued at \$405,000 to a designee of the Buyer of the Company's former subsidiary, Cloud B, Inc.

On June 30, 2020, the Company issued 33,000 shares of common stock valued at \$79,860 as incentive shares in connection with the Ralls financing.

On June 30, 2020, the Company issued 13,000 shares of common stock valued at \$30,420 as incentive shares in connection with the Solit financing.

Issuance of common stock - 2019

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 May 24, 2019, we issued 20,000 shares of our common stock valued at \$62,000 to a note holder related to the borrowing of funds.

On June 18, 2019, we issued 15,000 shares of our common stock valued at \$37,200 to a note holder to satisfy a portion of the payoff of one of our notes.

On July 16, 2019, we issued 20,000 shares of our common stock valued at \$70,920 to note holders related to the borrowing of funds.

On August 26, 2019, we issued 181,005 shares of our common stock, of which 153,005 shares were reserved shares which were returnable upon repayment, valued at \$713,159.70 to a note holder related to the borrowing of funds. These shares were returned in 2020 and are no longer outstanding.

On November 4, 2019, we issued 15,000 shares of our common stock valued at \$29,880 to one of our note holders related to our borrowing of funds.

On November 21, 2019, we issued 1,175,000 shares of our common stock to investors at a purchase price of \$2.00 per share in connection with the PIPE Transaction.

On December 5, 2019, we issued 45,000 shares of our common stock valued at \$90,000 related to the acquisition of the assets of Uber Mom, LLC.

On December 19, 2019, we issued 10,000 shares of our common stock valued at \$20,000 to 32 Entertainment, LLC, related to the borrowing of funds.

On December 31, 2019, we issued 10,000 shares of our common stock valued at \$20,000 to Joseph Tropea, a note holder, related to the borrowing of funds.

Issuance of common stock under the Company's Equity Compensation Plan:

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

On May 6, 2019, we issued 12,500 shares of our common stock valued at \$47,625 to an innovator for the licensing of their product.

On May 24, 2019, we issued 10,000 shares of our common stock valued at \$30,000 to a consultant for strategic consulting services.

On July 16, 2019, we issued 25,000 shares of our common stock valued at \$98,500 to a consultant for strategic consulting services.

On July 16, 2019, we issued 50,000 shares of our common stock valued at \$197,000 to a consultant for investor relations services.

On September 4, 2019, we issued 17,000 shares of our common stock under our plan valued at \$54,250 to consultants for strategic consulting services.

On September 4, 2019, we issued 3,000 shares of our common stock under our plan valued at \$8,850 to an employee.

On December 17, 2019, we issued 10,000 shares of our common stock valued at \$20,000 to a consultant for strategic consulting services for our Amazon.com business.

On December 23, 2019, we issued 100,000 shares of our common stock valued at \$200,000 to Phil Anderson, former Chief Strategic Officer, for satisfaction of surrendering his outstanding options.

On December 23, 2019, we issued 32,813 shares of our common stock valued at \$65,626 to Phil Anderson, our former Chief Financial Officer and Chief Strategic Officer, for satisfaction of his remaining payments under his strategic consulting contract.

On December 31, 2019, we issued 23,923 shares of our common stock valued at \$47,846 to 4 Keeps Roses, Inc, related to the joint venture of Ed Roses, LLC.

On January 13, 2020, we issued 50,000 shares of our common stock valued at \$100,000 to Ridgewood LLC, a consultant for strategic consulting services for assistance with sales on Amazon.com.

On February 7, 2020, we issued 15,000 shares of our common stock to MZHCI, LLC valued at \$40,350 in connection with the satisfaction of outstanding amounts due under a settlement agreement.

On March 16, 2020, the Company issued 300,000 shares of our common stock valued at \$600,000 to a Consultant as per the terms of the Consulting Agreement dated September 12, 2019.

On March 16, 2020, the Company issued 50,000 shares of our common stock valued at \$100,000 to a Consultant as per the terms of the Consulting Agreement dated September 12, 2019.

On April 13, 2020, we issued 12,500 shares of 12,500 shares of our common stock valued at \$31,625 to Caro Partners, LLC for consulting services.

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	
3.1	Second Amended and Restated Articles of Incorporation of Edison Nation, Inc.	8-K	3.3	March 26, 2020	
10.1	Loan Agreement with Tiburon Opportunity Fund, dated January 2, 2020	S-1	10.29	February 12, 2020	
10.2	5% Note Agreement with Equity Trust Company, Custodian FBO: Rawleigh H. Ralls, dated January 10, 2020	S-1	10.30	February 12, 2020	
10.3	Common Stock Purchase Warrant with Equity Trust Company, Custodian FBO: Rawleigh H. Ralls, dated January 10, 2020	S-1	10.31	February 12, 2020	
10.4	5% Note Agreement with Paul J. Solit and Julie B. Solit, dated January 15, 2020	S-1	10.32	February 12, 2020	
10.5	Common Stock Purchase Warrant with Paul J. Solit and Julie B. Solit, dated January 15, 2020	S-1	10.33	February 12, 2020	
10.6	5% Note Agreement with Richard O'Leary, dated January 17, 2020	S-1	10.34	February 12, 2020	
10.7	Common Stock Purchase Warrant with Richard O'Leary, dated January 15, 2020	S-1	10.35	February 12, 2020	
10.8	Loan Agreement with Greentree Financial Group, Inc., dated January 23, 2020	8-K	10.1	January 29, 2020	
10.9	10% Convertible Promissory Note with Greentree Financial Group, Inc., dated January 23, 2020	8-K	10.2	January 29, 2020	
10.10	Common Stock Purchase Warrant with Greentree Financial Group, Inc., dated January 23, 2020	8-K	10.3	January 29, 2020	
10.11	Amendment Agreement with Greentree Financial Group, Inc., dated January 29, 2020	8-K	10.4	January 29, 2020	
10.12	Agreement for the Purchase and Sale of Common Stock of Cloud B, Inc. dated February 17, 2020	8-K	10.1	February 21, 2020	
10.13	Asset Purchase Agreement between HMNRTH, LLC, TCBM Holdings, LLC and Edison Nation, Inc. and Scalematrix, LLC dated March 11, 2020	8-K	10.1	March 12, 2020	
10.14	Securities Purchase Agreement between Edison Nation, Inc. and Jefferson Street Capital, LLC dated April 7, 2020	8-K	10.3	April 27, 2020	
10.15	Convertible Promissory Note between Edison Nation, Inc. and Jefferson Street Capital, LLC dated April 7, 2020	8-K	10.4	April 27, 2020	
10.16	Securities Purchase Agreement between Edison Nation, Inc. and BHP Capital NY Inc. dated April 7, 2020	8-K	10.1	April 27, 2020	
10.17	Convertible Promissory Note between Edison Nation, Inc. and BHP Capital NY Inc dated April 7, 2020	8-K	10.2	April 27, 2020	
10.18	Promissory Note Small Business Administration-Paycheck Protection Program dated April 15, 2020	8-K	10.8	April 27, 2020	
10.19	Consulting Agreement between Edison Nation, Inc. and Tiburon dated April 24, 2020	8-K	10.5	April 27, 2020	
10.20	Debt Conversion Agreement between Edison Nation, Inc. and Tiburon Opportunity Fund dated April 24, 2020	8-K	10.6	April 27, 2020	
10.21	Distributor Agreement between Edison Nation Holdings, LLC and Marrone Bio Innovations, Inc. dated May 13, 2020	10-K	10.45	May 29, 2020	
10.22	Secured Line of Credit Agreement between Global Solutions, LLC, Edison Nation, Inc. and PPE Brickell Supplies, LLC dated May 20, 2020	8-K	10.1	May 26, 2020	
10.23	Security Agreement between Global Solutions, LLC, Edison Nation, Inc. and PPE Brickell Supplies, LLC dated May 20, 2020	8-K	10.2	May 26, 2020	
10.24	Agreement and Plan of Share Exchange Agreement between Edison Nation, Inc. PPE Brickell Supplies, LLC and Graphene Holdings, LLC dated May 20, 2020	8-K	10.3	May 26, 2020	
10.25	Amended Limited Liability Company Agreement of Global Clean Solutions, LLC dated May 20, 2020	8-K	10.4	May 26, 2020	
10.26	Purchase of Inventory and Repurchase Agreement between Edison Nation, Inc. and Fergco Bros. dated May 7, 2020	10-K	10.50	May 29, 2020	
10.27	Amendment to Purchase of Inventory and Repurchase Agreement between Edison Nation, Inc. and Fergco Bros. dated May 15, 2020	10-K	10.51	May 29, 2020	
10.28	Amendment to Senior Secured Note between Edison Nation, Inc. and 32 Entertainment, LLC dated May 19, 2020	10-K	10.52	May 29, 2020	
10.29	Amended Subordinate Secured Note between Edison Nation, Inc and 32 Entertainment, LLC dated May 19, 2020	10-K	10.53	May 29, 2020	
10.30	Convertible Promissory Note between Edison Nation, Inc. and Jefferson Street Capital, LLC dated July 29, 2020				*
10.31	Memorandum of Understanding between the Global Clean Solutions, LLC, Office Mart, Inc. and ZAAZ Medical, Inc. dated June 8, 2020				*
10.32	Amendment to Memorandum of Understanding dated August 6, 2020				*
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

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101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
101.LAB* XBRL Taxonomy Extension Label Linkbase Document
101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

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* 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: August 18, 2020

EDISON NATION, INC.

By: /s/ Christopher B. Ferguson

Christopher B. Ferguson

Chairman and Chief Executive Officer

(Principal Executive Officer)

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: US\$224,000.00

Purchase Price: US\$200,000.00

Original Conversion Price (subject to adjustment herein): \$2.05

Issue Date: July 29, 2020

CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, EDISON NATION, INC., a Nevada corporation (hereinafter called the “Borrower”), hereby promises to pay to the order of Jefferson Street Capital LLC, a New Jersey limited liability company, or its registered assigns (the “Holder”), the sum of US\$224,000.00, together with any interest as set forth herein, on January 29, 2021 (the “Maturity Date”), and to pay a one-time interest charge on the initial principal balance hereof in the amount of two percent (2%) (the “Interest Rate”), which such amount shall be immediately assessed as of the funding date hereof (the “Issue Date”) and become due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. This Convertible Promissory Note (the “Note”) may be prepaid in whole or in part as explicitly set forth herein. Any amount of principal or interest on this Note which is not paid when due shall bear interest at the rate of twenty-four percent (24%) per annum from the due date thereof until the same is paid (the “Default Interest”). Interest shall commence accruing on the date that the Note is fully paid and shall be computed on the basis of a 360-day year and the actual number of days elapsed. All payments due hereunder (to the extent not converted into common stock, \$0.001 par value per share (the “Common Stock”) in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a business day, the same shall instead be due on the next succeeding day which is a business day and, in the case of any interest payment date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of interest due on such date. As used in this Note, the term “business day” shall mean any day other than a Saturday, Sunday or a day on which commercial banks in the city of New York, New York are authorized or required by law or executive order to remain closed.

On April 7, 2020, the Borrower entered into that certain Securities Purchase Agreement (as amended and/or restated from time to time, the "Purchase Agreement"), by and between the Borrower and the Holder with an aggregate funding amount under the Agreement in an amount up to US\$500,000.00, in connection with the first tranche issuance of that certain Convertible Promissory Note of the Borrower in favor of the Investor, in the principal amount of US\$168,000.00 (the "April Note"), convertible into shares of common stock, \$0.001 par value per share, of the Borrower (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such April Note. This Note is the second tranche under the terms and conditions of the Purchase Agreement in the principal amount of US\$224,000.00, convertible into shares of common stock, \$0.001 par value per share, of the Borrower upon the terms and subject to the limitations and conditions set forth herein. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in the Purchase Agreement, pursuant to which this Note was originally issued.

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower and will not impose personal liability upon the holder thereof.

The undersigned hereby affirms all of the obligations of the Borrower to the Holder under all of the Transaction Documents and agrees and affirms as follows: (i) that as of the date hereof, the undersigned have performed, satisfied and complied in all material respects with all the covenants, agreements and conditions under each of the Transaction Documents to be performed, satisfied or complied with by the undersigned; (ii) that the undersigned shall continue to perform each and every covenant, agreement and condition set forth in each of the Transaction Documents and this Note, and continue to be bound by each and all of the terms and provisions thereof and hereof; (iii) that as of the date hereof, no default or Event of Default has occurred or is continuing under the Purchase Agreement, any Note or any other Transaction Documents, and no event has occurred that, with the passage of time, the giving of notice, or both, would constitute a default or an Event of Default under the Purchase Agreement, the Notes or any other Transaction Documents; and (iv) that as of the date hereof, no event, fact, or other set of circumstances has occurred which could reasonably be expected to have, cause, or result in a Material Adverse Effect.

The undersigned hereby acknowledges, represents, warrants and confirms to Holder that: (i) each of the Transaction Documents executed by the Borrower are valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms; and (ii) no oral representations, statements, or inducements have been made by Holder, or any agent or representative of Holder, with respect to this Note, any other Note, the Purchase Agreement, and all other Transaction Documents.

The following terms shall apply to this Note:

ARTICLE I. CONVERSION RIGHTS

1.1 Conversion Right. The Holder shall have the right at any time after 180 calendar days from the Issue Date to convert all or any part of the outstanding and unpaid principal, interest, fees, or any other obligation owed pursuant to this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or any shares of capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed or reclassified at the Conversion Price (as defined below) determined as provided herein (a "Conversion"); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso, provided, further, however, that the limitations on conversion may be waived by the Holder upon, at the election of the Holder, not less than 61 days' prior notice to the Borrower, and the provisions of the conversion limitation shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver). The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) (the numerator) by the applicable Conversion Price then in effect on the date specified in the notice of conversion (the denominator), in the form attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 6:00 p.m., New York, New York time on such conversion date (the "Conversion Date"). The term "Conversion Amount" means, with respect to any conversion of this Note, the sum of (1) the principal amount of this Note to be converted in such conversion plus (2) at the Holder's option, accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date, provided however, that the Borrower shall have the right to pay any or all interest in cash plus (3) at the Holder's option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) at the Holder's option, any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof.

1.2 Conversion Price.

(a) Calculation of Conversion Price. Subject to the adjustments described herein, the conversion price (the “Conversion Price”) shall equal \$2.05. Upon an Event of Default, the Conversion Price shall equal the Alternate Conversion Price (as defined herein) (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower relating to the Borrower’s securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The “Alternate Conversion Price” shall equal the lesser of (i) 80% multiplied by the average of the three lowest daily volume weighted average prices (“VWAP”) during the previous twenty (20) Trading Days (as defined below) before the Issue Date of this Note (representing a discount rate of 20%) or (ii) 80% multiplied by the Market Price (as defined herein) (representing a discount rate of 20%). “Market Price” means the average of the three lowest daily VWAPs for the Common Stock during the twenty (20) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. To the extent the Conversion Price of the Borrower’s Common Stock closes below the par value per share, the Borrower will take all steps necessary to solicit the consent of the stockholders to reduce the par value to the lowest value possible under law. The Borrower agrees to honor all conversions submitted pending this adjustment. Furthermore, the Conversion Price may be adjusted downward if, within three (3) business days of the transmittal of the Notice of Conversion to the Borrower, the Common Stock has a closing bid which is 5% or lower than that set forth in the Notice of Conversion. If the shares of the Borrower’s Common Stock have not been delivered within three (3) business days to the Borrower, the Notice of Conversion may be rescinded. At any time after the Closing Date, if in the case that the Borrower’s Common Stock is not deliverable by DWAC (including if the Borrower’s transfer agent has a policy prohibiting or limiting delivery of shares of the Borrower’s Common Stock specified in a Notice of Conversion), an additional 10% discount will apply for all future conversions under all Notes. If in the case that the Borrower’s Common Stock is “chilled” for deposit into the DTC system and only eligible for clearing deposit, an additional 15% discount shall apply for all future conversions under all Notes while the “chill” is in effect. If in the case of both of the above, an additional cumulative 25% discount shall apply. Additionally, if the Borrower ceases to be a reporting company pursuant to the 1934 Act or if the Note cannot be converted into free trading shares after one hundred eighty-one (181) days from the Issue Date, an additional 15% discount will be attributed to the Conversion Price. If the Market Price cannot be calculated for such security on such date in the manner provided above, the Market Price shall be the lesser of (i) the lowest trading price of the Common Stock, or (ii) the fair market value as mutually determined by the Borrower and the holders of a majority in interest of the Notes being converted for which the calculation of the Trading Price is required in order to determine the Conversion Price of such Notes. “Trading Day” shall mean any day on which the Common Stock is tradable for any period on the Nasdaq or on the principal securities exchange or other securities market on which the Common Stock is then being traded. The Borrower shall be responsible for the fees of its transfer agent and all DTC fees associated with any such issuance. Holder shall be entitled to add to the principal amount of the Note \$750.00 for each conversion to cover Holder’s deposit fees associated with each Notice of Conversion.

(b) Conversion Price During Major Announcements. Notwithstanding anything contained in Section 1.2(a) to the contrary, in the event the Borrower (i) makes a public announcement that it intends to consolidate or merge with any other corporation (other than a merger in which the Borrower is the surviving or continuing corporation and its capital stock is unchanged) or sell or transfer all or substantially all of the assets of the Borrower or (ii) any person, group or entity (including the Borrower) publicly announces a tender offer to purchase 50% or more of the Borrower’s Common Stock (or any other takeover scheme) (the date of the announcement referred to in clause (i) or (ii) is hereinafter referred to as the “Announcement Date”), then the Conversion Price shall, effective upon the Announcement Date and continuing through the Adjusted Conversion Price Termination Date (as defined below), be equal to the lower of (x) the Conversion Price which would have been applicable for a Conversion occurring on the Announcement Date and (y) the Conversion Price that would otherwise be in effect. From and after the Adjusted Conversion Price Termination Date, the Conversion Price shall be determined as set forth in this Section 1.2(a). For purposes hereof, “Adjusted Conversion Price Termination Date” shall mean, with respect to any proposed transaction or tender offer (or takeover scheme) for which a public announcement as contemplated by this Section 1.2(b) has been made, the date upon which the Borrower (in the case of clause (i) above) or the person, group or entity (in the case of clause (ii) above) consummates or publicly announces the termination or abandonment of the proposed transaction or tender offer (or takeover scheme) which caused this Section 1.2(b) to become operative

(c) Pro Rata Conversion; Disputes. In the event of a dispute as to the number of shares of Common Stock issuable to the Holder in connection with a conversion of this Note, the Borrower shall issue to the Holder the number of shares of Common Stock not in dispute and resolve such dispute in accordance with Section 4.13.

(d) Issuance Cap. Notwithstanding anything to the contrary contained in this Note or the other Transaction Documents, Holder and Borrower agree that the total cumulative number of shares of Common Stock issued to Holder hereunder together with all other Transaction Documents may not exceed the requirements of Nasdaq Listing Rule 5635(d) ("**Nasdaq 19.99% Cap**"), except that such limitation will not apply following Nasdaq Approval. If Borrower is unable to obtain Nasdaq Approval to issue Common Stock to the Holder in excess of the Nasdaq 19.99% Cap, any remaining outstanding balance of this Note must be repaid in cash at the request of the Holder.

1.3 Authorized Shares. The Borrower covenants that during the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note issued pursuant to the Purchase Agreement. The Borrower is required at all times to have authorized and reserved at least two and one half (2.5) times the number of shares that is actually issuable upon full conversion of the Note (based on the Conversion Price of the Notes in effect from time to time) (the "Reserved Amount"). The Reserved Amount shall be increased from time to time in accordance with the Borrower's obligations pursuant to Section 3(d) of the Purchase Agreement. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Notes. The Borrower (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Note, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note. Notwithstanding the foregoing, in no event shall the Reserved Amount be lower than the initial Reserved Amount, regardless of any prior conversions. The Holder undertakes as a condition to this Note, that upon the either the payment of this Note plus all accrued interest and/or the conversion of this Note in full, the Holder, within three (3) business days, shall give written notice to TOL to release all shares subject to the Reserved Amount.

If, at any time the Borrower does not maintain or replenish the Reserved Amount within three (3) business days of the request of the Holder, the principal amount of the Note shall increase by Five Thousand and No/100 United States Dollars (\$5,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date) per occurrence.

1.4 Method of Conversion.

(a) Mechanics of Conversion. Subject to Section 1.1, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 5:00 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower.

(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion. In the event of any dispute or discrepancy, such records of the Holder shall, *prima facie*, be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

(c) Payment of Taxes. The Borrower shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock or other securities or property on conversion of this Note in a name other than that of the Holder (or in street name), and the Borrower shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons (other than the Holder or the custodian in whose street name such shares are to be held for the Holder's account) requesting the issuance thereof shall have paid to the Borrower the amount of any such tax or shall have established to the satisfaction of the Borrower that such tax has been paid.

(d) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates (or electronic shares via DWAC transfer, at the option of Holder) for the Common Stock issuable upon such conversion within three (3) business days after such receipt (the "Deadline") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof and the Purchase Agreement.

(e) Obligation of Borrower to Deliver Common Stock. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations under this Article I, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion. The Conversion Date specified in the Notice of Conversion shall be the Conversion Date so long as the Notice of Conversion is received by the Borrower before 5:00 p.m., New York, New York time, on such date.

(f) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Holder and its compliance with the provisions contained in Section 1.1 and in this Section 1.4, the Borrower shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal At Custodian ("DWAC") system.

(g) DTC Eligibility & Conversion Price Threshold. If the Borrower fails to maintain its status as "DTC Eligible" for any reason, or, if the Conversion Price is less than \$0.75, at any time while this Note is outstanding, the principal amount of the Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date). In addition, the Alternate Conversion Price shall be redefined to mean fifty percent (50%) multiplied by the Market Price, subject to adjustment as provided in this Note.

(h) Failure to Deliver Common Stock Prior to Delivery Deadline Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline (other than a failure due to the circumstances described in Section 1.3 above, which failure shall be governed by such Section) the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock until the Borrower issues and delivers a certificate to the Holder or credit the Holder's balance account with Nasdaq for the number of shares of Common Stock to which the Holder is entitled upon such Holder's conversion of any Conversion Amount (under Holder's and Borrower's expectation that any damages will tack back to the Issue Date). Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 1.4(h) are justified.

(i) Rescindment of a Notice of Conversion. If (i) the Borrower fails to respond to Holder within one (1) business day from the Conversion Date confirming the details of Notice of Conversion, (ii) the Borrower fails to provide any of the shares of the Borrower's Common Stock requested in the Notice of Conversion within three (3) business days from the date of receipt of the Note of Conversion, (iii) the Holder is unable to procure a legal opinion required to have the shares of the Borrower's Common Stock issued unrestricted and/or deposited to sell for any reason related to the Borrower's standing, (iv) the Holder is unable to deposit the shares of the Borrower's Common Stock requested in the Notice of Conversion for any reason related to the Borrower's standing, (v) at any time after a missed Deadline, at the Holder's sole discretion, or (vi) if Nasdaq changes the Borrower's designation to 'Limited Information' (Yield), 'No Information' (Stop Sign), 'Caveat Emptor' (Skull & Crossbones), or 'Grey Market' (Exclamation Mark Sign) or other trading restriction on the day of or any day after the Conversion Date, the Holder maintains the option and sole discretion to rescind the Notice of Conversion ("Rescindment") with a "Notice of Rescindment."

1.5 Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) ("Rule 144") or (iv) such shares are transferred to an "affiliate" (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an Accredited Investor (as defined in the Purchase Agreement). Except as otherwise provided in the Purchase Agreement (and subject to the removal provisions set forth below), until such time as the shares of Common Stock issuable upon conversion of this Note have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for shares of Common Stock issuable upon conversion of this Note that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

"NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES."

The legend set forth above shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if (i) the Borrower or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be reasonably accepted by the Borrower so that the sale or transfer is effected or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold. In the event that the Borrower does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

1.6 Effect of Certain Events.

(a) Effect of Merger, Consolidation, Etc. At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall either: (i) be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III) or (ii) be treated pursuant to Section 1.6(b) hereof. "Person" shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Note is issued and outstanding and prior to conversion of all of the Notes, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives, to the extent practicable, thirty (30) days prior written notice (but in any event at least fifteen (15) days prior written notice) of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Section 1.6(b). The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a "Distribution"), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(d) Purchase Rights. If, at any time when any Notes are issued and outstanding, the Borrower issues any convertible securities or rights to purchase stock, warrants, securities or other property (the "Purchase Rights") pro rata to the record holders of any class of Common Stock, then the Holder of this Note will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without regard to any limitations on conversion contained herein) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(e) Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price as a result of the events described in this Section 1.6, the Borrower, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to the Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Borrower shall, upon the written request at any time of the Holder, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of the Note.

1.7 Trading Market Limitations. Unless permitted by the applicable rules and regulations of the principal securities market on which the Common Stock is then listed or traded, in no event shall the Borrower issue upon conversion of or otherwise pursuant to this Note and the other Notes issued pursuant to the Purchase Agreement more than the maximum number of shares of Common Stock that the Borrower can issue pursuant to any rule of the principal United States securities market on which the Common Stock is then traded (the "Maximum Share Amount"), which shall be 4.99% of the total shares outstanding on the Closing Date (as defined in the Purchase Agreement), subject to equitable adjustment from time to time for stock splits, stock dividends, combinations, capital reorganizations and similar events relating to the Common Stock occurring after the date hereof. Once the Maximum Share Amount has been issued, if the Borrower fails to eliminate any prohibitions under applicable law or the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Borrower or any of its securities on the Borrower's ability to issue shares of Common Stock in excess of the Maximum Share Amount, in lieu of any further right to convert this Note, this will be considered an Event of Default under Section 3.2 of the Note.

1.8 Status as Shareholder. Upon submission of a Notice of Conversion by a Holder, (i) the shares covered thereby (other than the shares, if any, which cannot be issued because their issuance would exceed such Holder's allocated portion of the Reserved Amount or Maximum Share Amount) shall be deemed converted into shares of Common Stock and (ii) the Holder's rights as a Holder of such converted portion of this Note shall cease and terminate, excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Borrower to comply with the terms of this Note. Notwithstanding the foregoing, if a Holder has not received certificates for all shares of Common Stock prior to the tenth (10th) business day after the expiration of the Deadline with respect to a conversion of any portion of this Note for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Stock by so notifying the Borrower) the Holder shall regain the rights of a Holder of this Note with respect to such unconverted portions of this Note and the Borrower shall, as soon as practicable, return such unconverted Note to the Holder or, if the Note has not been surrendered, adjust its records to reflect that such portion of this Note has not been converted. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive Conversion Default Payments pursuant to Section 1.3 to the extent required thereby for such Conversion Default and any subsequent Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions determined in accordance with Section 1.3) for the Borrower's failure to convert this Note.

1.9 Prepayment. Notwithstanding anything to the contrary contained in this Note, the Borrower may prepay the amounts outstanding hereunder pursuant to the following terms and conditions:

(a) At any time during the period beginning on the Issue Date and ending on the date which is one hundred eighty (180) days following the Issue Date, the Borrower shall have the right, exercisable on not less than five (5) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full by making a payment to the Holder of an amount in cash equal to 115%, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note plus (y) Default Interest, if any.

(b) After the expiration of one hundred eighty-one (181) days following the date of the Note, the Borrower shall have no right of prepayment except by written consent of the Holder.

Any notice of prepayment hereunder (an "Optional Prepayment Notice") shall be delivered to the Holder of the Note at its registered addresses and shall state: (1) that the Borrower is exercising its right to prepay the Note, and (2) the date of prepayment which shall be not more than three (3) Trading Days from the date of the Optional Prepayment Notice. On the date fixed for prepayment (the "Optional Prepayment Date"), the Borrower shall make payment of the applicable prepayment amount to or upon the order of the Holder as specified by the Holder in writing to the Borrower at least one (1) business day prior to the Optional Prepayment Date. If the Borrower delivers an Optional Prepayment Notice and fails to pay the applicable prepayment amount due to the Holder of the Note within two (2) business days following the Optional Prepayment Date, the Borrower shall forever forfeit its right to prepay the Note pursuant to this Section 1.9.

1.10 Mandatory Prepayment Option. Notwithstanding the prepayment provisions set forth herein, no later than one hundred sixty five (165) calendar days from the Issue Date, at the sole and absolute discretion of the Holder, the Holder may demand in writing by e-mail (a "Prepayment Demand"), prepayment by the Borrower to the Holder in cash in an amount equal to 115%, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note plus (y) Default Interest, if any (the "Mandatory Prepayment Amount"). Upon delivery of the Prepayment Demand, the Borrower shall have one hundred eighty (180) calendar days from the Issue Date to deliver the Mandatory Prepayment Amount to the Holder (the "Prepayment Delivery Date"). In the event the Borrower fails to deliver the Mandatory Prepayment Amount to the Holder on or before the Prepayment Delivery Date, it shall be an Event of Default under Section 3.4 herein.

ARTICLE II. CERTAIN COVENANTS

2.1 Distributions on Capital Stock. So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder's written consent (a) pay, declare or set apart for such payment, any dividend or other distribution (whether in cash, property or other securities) on shares of capital stock other than dividends on shares of Common Stock solely in the form of additional shares of Common Stock or (b) directly or indirectly or through any subsidiary make any other payment or distribution in respect of its capital stock except for distributions pursuant to any shareholders' rights plan which is approved by a majority of the Borrower's disinterested directors.

2.2 Restriction on Stock Repurchases. So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder's written consent redeem, repurchase or otherwise acquire (whether for cash or in exchange for property or other securities or otherwise) in any one transaction or series of related transactions any shares of capital stock of the Borrower or any warrants, rights or options to purchase or acquire any such shares.

2.3 Sale of Assets. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

2.4 Advances and Loans. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, lend money, give credit or make advances to any person, firm, joint venture or corporation, including, without limitation, officers, directors, employees, subsidiaries and affiliates of the Borrower, except loans, credits or advances (a) in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof, (b) made in the ordinary course of business or (c) not in excess of \$100,000.

2.5 Preservation of Existence, etc. The Borrower shall maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its Subsidiaries (other than dormant Subsidiaries that have no or minimum assets) to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

2.6 Non-circumvention. The Borrower hereby covenants and agrees that the Borrower will not, by amendment of its Certificate or Articles of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all the provisions of this Note and take all action as may be required to protect the rights of the Holder.

ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an “Event of Default”) shall occur:

3.1 Failure to Pay Principal or Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether by the Maturity Date, upon acceleration or otherwise.

3.2 Conversion and the Shares. The Borrower fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, the Borrower directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, or fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion. It is an obligation of the Borrower to remain current in its obligations to its transfer agent. It shall be an event of default of this Note, if a conversion of this Note is delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent. If at the option of the Holder, the Holder advances any funds to the Borrower’s transfer agent in order to process a conversion, such advanced funds shall be paid by the Borrower to the Holder within forty-eight (48) hours of a demand from the Holder.

3.3 Failure to Deliver Transaction Expense Amount. The Borrower fails to deliver the Transaction Expense Amount (as defined in the Purchase Agreement) to the Holder within three (3) business days of the date such amount is due.

3.4 Breach of Covenants. The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents including but not limited to the Purchase Agreement.

3.5 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.6 Receiver or Trustee. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors or commence proceedings for its dissolution, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed for the Borrower or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment.

3.7 Judgments. Any money judgment, writ or similar process shall be entered or filed against the Borrower or any subsidiary of the Borrower or any of its property or other assets for more than \$50,000, and shall remain unvacated, unbonded or unstayed for a period of sixty (60) days unless otherwise consented to by the Holder, which consent will not be unreasonably withheld.

3.8 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower, or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under federal or state laws as applicable or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under international, federal or state laws as applicable.

3.9 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on the Nasdaq National Market, the Nasdaq Small Cap Market, the New York Stock Exchange, or the NYSE MKT.

3.10 Failure to Comply with the Exchange Act. The Borrower shall fail to comply with the reporting requirements of the Exchange Act (including but not limited to becoming delinquent in its filings; and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act.

3.11 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

3.12 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

3.13 Maintenance of Assets. The failure by Borrower to maintain any material intellectual property rights, personal, real property or other assets which are necessary to conduct its business (whether now or in the future) or any disposition or conveyance of any material asset of the Borrower.

3.14 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.15 Reverse Splits. The Borrower effectuates a reverse split of its Common Stock without twenty (20) days prior written notice to the Holder.

3.16 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

3.17 Cessation of Trading. Any cessation of trading of the Common Stock on the Nasdaq National Market, the Nasdaq Small Cap Market, the New York Stock Exchange, or the NYSE MKT, and such cessation of trading shall continue for a period of five consecutive (5) Trading Days.

3.18 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any material covenant or other term or condition contained in any of the Other Agreements, other than any such breach or default which is cured by agreement of the parties, after the passage of all applicable notice and cure or grace periods, shall, at the option of the Holder, be considered a default under this Note and the Other Agreements, in which event the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the Other Agreements by reason of a default under said Other Agreement or hereunder. "Other Agreements" means, collectively, all agreements and instruments between, among or by: (1) the Borrower, and, or for the benefit of, (2) the Holder and any affiliate of the Holder, including, without limitation, promissory notes; provided, however, the term "Other Agreements" shall not include the agreements and instruments defined as the Documents. Each of the loan transactions will be cross-defaulted with each other loan transaction and with all other existing and future debt of Borrower to the Holder.

3.19 Bid Price. The Borrower shall lose the "bid" price for its Common Stock (\$0.0001 on the "Ask" with zero market makers on the "Bid" per Level 2) and/or a market.

3.20 Nasdaq Markets Designation. Nasdaq changes the Borrower's designation to 'No Information' (Stop Sign), 'Caveat Emptor' (Skull and Crossbones), or 'Grey Market' (Exclamation Mark Sign).

3.21 Inside Information. Any attempt by the Borrower or its officers, directors, and/or affiliates to transmit, convey, disclose, or any actual transmittal, conveyance, or disclosure by the Borrower or its officers, directors, and/or affiliates of, material non-public information concerning the Borrower, to the Holder or its successors and assigns, which is not immediately cured by Borrower's filing of a Form 8-K pursuant to Regulation FD on that same date.

3.22 Unavailability of Rule 144. If, at any time on or after the date which is six (6) months after the Issue Date, the Holder is unable to (i) obtain a standard "144 legal opinion letter" from an attorney reasonably acceptable to the Holder, the Holder's brokerage firm (and respective clearing firm), and the Borrower's transfer agent in order to facilitate the Holder's conversion of any portion of the Note into free trading shares of the Borrower's Common Stock pursuant to Rule 144, and (ii) thereupon deposit such shares into the Holder's brokerage account.

3.23 3(a)(10) Transaction. So long as this Note is outstanding, the Borrower shall not enter into any transaction or arrangement structured in accordance with, based upon, or related or pursuant to, in whole or in part, Section 3(a)(10) of the Securities Act.

Upon the occurrence of any Event of Default specified in Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 3.15, 3.16, 3.17, 3.18, 3.19, 3.20, 3.21, 3.22 and 3.23, exercisable through the delivery of written notice to the Borrower by such Holders (the "Default Notice"), the Alternate Conversion Price shall be effective, the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to 130% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and/or (x) plus (z) any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof (the then outstanding principal amount of this Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Sum") or (ii) at the option of the Holder, the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Trading Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity. Further, if a breach of Sections 3.9, 3.10 and/or 3.19 occurs or is continuing after the six (6) month anniversary of this Note, then the principal amount of the Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date) and the Holder shall be entitled to use the lowest Trading Price during the delinquency period as a base price for the conversion with the Alternate Conversion Price shall be redefined to mean fifty percent (50%) multiplied by the Market Price (at the option of the Holder), subject to adjustment as provided in this Note. For example, if the lowest Trading Price during the delinquency period is \$0.01 per share and the conversion discount is 50%, then the Holder may elect to convert future conversions at \$0.005 per share.

The Holder shall have the right at any time, to require the Borrower to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect, subject to the terms of this Note. This requirement by the Borrower shall automatically apply upon the occurrence of an Event of Default without the need for any party to give any notice or take any other action.

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, then if the Holder prevails in such action, the Holder shall be reimbursed by the Borrower for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

ARTICLE IV. MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, e-mail or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by email or facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

Edison Nation, Inc.
1 West Broad Street
Suite 1004
Bethlehem, PA 18018

If to the Holder:

Jefferson Street Capital LLC
720 Monroe Street, C401B
Hoboken, NJ 07030

4.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Notes issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns and shall inure to be the benefit of the Holder and its successors and assigns. Neither the Borrower nor the Holder shall assign this Note or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Holder may assign its rights hereunder to any "accredited investor" (as defined in Rule 501(a) of the 1933 Act) in a private transaction from the Holder or to any of its "affiliates", as that term is defined under the 1934 Act, without the consent of the Borrower. Notwithstanding anything in this Note to the contrary, this Note may be pledged as collateral in connection with a bona fide margin account or other lending arrangement. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

4.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Nevada without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state courts of New York, in the federal courts located in the District of the State of New York, or in such other jurisdiction and venue as the Holder may determine in its sole discretion. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. **THE BORROWER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.** The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

4.7 Certain Amounts. Whenever pursuant to this Note the Borrower is required to pay an amount in excess of the outstanding principal amount (or the portion thereof required to be paid at that time) plus accrued and unpaid interest plus Default Interest on such interest, the Borrower and the Holder agree that the actual damages to the Holder from the receipt of cash payment on this Note may be difficult to determine and the amount to be so paid by the Borrower represents stipulated damages and not a penalty and is intended to compensate the Holder in part for loss of the opportunity to convert this Note and to earn a return from the sale of shares of Common Stock acquired upon conversion of this Note at a price in excess of the price paid for such shares pursuant to this Note. The Borrower and the Holder hereby agree that such amount of stipulated damages is not plainly disproportionate to the possible loss to the Holder from the receipt of a cash payment without the opportunity to convert this Note into shares of Common Stock.

4.8 Purchase Agreement. By its acceptance of this Note, each party agrees to be bound by the applicable terms of the Purchase Agreement.

4.9 Notice of Corporate Events. Except as otherwise provided below, the Holder of this Note shall have no rights as a Holder of Common Stock unless and only to the extent that it converts this Note into Common Stock. The Borrower shall provide the Holder with prior notification of any meeting of the Borrower's shareholders (and copies of proxy materials and other information sent to shareholders). In the event of any taking by the Borrower of a record of its shareholders for the purpose of determining shareholders who are entitled to receive payment of any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire (including by way of merger, consolidation, reclassification or recapitalization) any share of any class or any other securities or property, or to receive any other right, or for the purpose of determining shareholders who are entitled to vote in connection with any proposed sale, lease or conveyance of all or substantially all of the assets of the Borrower or any proposed liquidation, dissolution or winding up of the Borrower, the Borrower shall mail a notice to the Holder, at least twenty (20) days prior to the record date specified therein (or thirty (30) days prior to the consummation of the transaction or event, whichever is earlier), of the date on which any such record is to be taken for the purpose of such dividend, distribution, right or other event, and a brief statement regarding the amount and character of such dividend, distribution, right or other event to the extent known at such time. The Borrower shall make a public announcement of any event requiring notification to the Holder hereunder substantially simultaneously with the notification to the Holder in accordance with the terms of this Section 4.9 including, but not limited to, name changes, recapitalizations, etc. as soon as possible under law.

4.10 Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable provision shall automatically be revised to equal the maximum rate of interest or other amount deemed interest permitted under applicable law. The Borrower covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any usury law that would prohibit or forgive the Borrower from paying all or a portion of the principal or interest on this Note.

4.11 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required. No provision of this Note shall alter or impair the obligation of the Borrower, which is absolute and unconditional, to pay the principal of, and interest on, this Note at the time, place, and rate, and in the form, herein prescribed.

4.12 Severability. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

4.13 Dispute Resolution. In the case of a dispute as to the determination of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum, Closing or Maturity Date, the closing bid price, or fair market value (as the case may be) or the arithmetic calculation of the Conversion Price or the applicable prepayment amount(s) (as the case may be), the Borrower or the Holder shall submit the disputed determinations or arithmetic calculations via facsimile (i) within two (2) Business Days after receipt of the applicable notice giving rise to such dispute to the Borrower or the Holder or (ii) if no notice gave rise to such dispute, at any time after the Holder learned of the circumstances giving rise to such dispute. If the Holder and the Borrower are unable to agree upon such determination or calculation within two (2) Business Days of such disputed determination or arithmetic calculation (as the case may be) being submitted to the Borrower or the Holder, then the Borrower shall, within two (2) Business Days, submit via facsimile (a) the disputed determination of the Conversion Price, the closing bid price, the or fair market value (as the case may be) to an independent, reputable investment bank selected by the Borrower and approved by the Holder or (b) the disputed arithmetic calculation of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum to an independent, outside accountant selected by the Holder that is reasonably acceptable to the Borrower. The Borrower shall cause at its expense the investment bank or the accountant to perform the determinations or calculations and notify the Borrower and the Holder of the results no later than two (2) Business Days from the time it receives such disputed determinations or calculations. Such investment bank's or accountant's determination or calculation shall be binding upon all parties absent demonstrable error.

4.14 Terms of Future Financings. So long as this Note is outstanding, upon any issuance by the Borrower or any of its subsidiaries of any security with any term more favorable to the holder of such security or with a term in favor of the holder of such security that was not similarly provided to the Holder in this Note, then the Borrower shall notify the Holder of such additional or more favorable term and such term, at Holder's option, shall become a part of the transaction documents with the Holder. The types of terms contained in another security that may be more favorable to the holder of such security include, but are not limited to, terms addressing conversion discounts, prepayment rate, conversion lookback periods, interest rates, original issue discounts, stock sale price, private placement price per share, and warrant coverage.

4.15 Registered Broker Dealer Review Fee. The Borrower shall pay Moody Capital Solutions Inc., a registered broker dealer (CRD#: 15989 and SEC#: 8-32928), a fee in the amount of \$3,000.00 in connection with the diligence review of the Borrower and the transaction contemplated under the Agreement, the Note and related transaction documents (the "Registered Broker Dealer Review Fee"). The Registered Broker Dealer Review Fee shall be paid from the proceeds funded by the Buyer at closing as set forth in the related Disbursement Authorization.

4.16 Issuance of Common Stock Shares to Buyer. As additional consideration for the Holder loaning the Purchase Price to the Borrower, the Borrower shall issue in connection with this second tranche, 14,266 shares of common stock to the Holder upon execution hereof.

[signature page follows]

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer as of the date first above written.

EDISON NATION, INC.

By: _____
Name: Christopher B. Ferguson
Title: Chief Executive Officer

EXHIBIT A
NOTICE OF CONVERSION

The undersigned hereby elects to convert \$ _____ principal amount of the Note (defined below) together with \$ _____ of accrued and unpaid interest thereto, totaling \$ _____ into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of Edison Nation, Inc., a Nevada corporation (the "Borrower"), according to the conditions of the convertible note of the Borrower dated as of July 29, 2020 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any.

Box Checked as to applicable instructions:

- The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal At Custodian system ("DWAC Transfer").

Name of DTC Prime Broker:
Account Number:

- The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

Date of Conversion:

Applicable Conversion Price:

\$ _____

Number of Shares of Common Stock to be Issued Pursuant to Conversion of the Notes:

Amount of Principal Balance Due remaining Under the Note after this conversion:

Accrued and unpaid interest remaining:

JEFFERSON STREET CAPITAL LLC

By: _____
Name: Brian Goldberg
Title: Managing Member

This Binding Memorandum of Understanding (this "MOU") is entered into as of this 8th day of June, 2020 ("Effective Date"), by and among OFFICE MART, INC a North Carolina corporation ("OM"), JASON ANGEL ("JA"), Global Clean Solutions LLC a Nevada Corp ("GC") and ZAAZ Medical, Inc (ZM). OM, JA, GC and ZM shall also be referred to hereinafter as a "Party," and collectively, as the "Parties".

WHEREAS, JA ("Current Owner"), is the current majority owner of Office Mart, Inc.

WHEREAS JA has full right, title and lawful authority to enter into this Agreement and is not a party to or bound by any contract, agreement, obligation, statute, regulatory provision or other restriction which would prevent, prohibit or otherwise adversely affect its ability to carry out the terms and provisions of this Agreement.

WHEREAS, ZAAZ Medical, Inc ("ZM") is in the business of sourcing and supplying Personal Protective Equipment for the fulfillment of certain purchase orders.

WHEREAS, Global Clean Solutions, LLC ("GC") has been integral in the facilitation of sourcing and supplying Personal Protective Equipment for the fulfillment of certain purchase orders.

WHEREAS, Global Clean Solutions, LLC ("GC") is party to the purchase orders from the State of California (PO#M14605-T18010 and PO# M14605-T19500) with Office Mart ("OM").

WHEREAS, ZAAZ Medical, Inc is in the business of securing financing for purchase orders.

WHEREAS, OM is a marketing company for the sale of Personal Protective Equipment.

WHEREAS, OM has Received purchase orders ("Pos") from the State of California PO# M14605-T18010 Dated May 5th 2020 and PO #M14605-T19500 Dated May 14th 2020.

WHEREAS, upon the signing of this MOU the agreement should be binding on the parties.

WHEREAS, the Parties desire to enter into this binding MOU between them, setting out the preliminary economic, working arrangements that each of the Parties agree are necessary to effectuate the objectives of the MOU;

WHEREAS, the parties agree that OM has not delivered on the POs, which has caused a delay in fulfillment of its responsibility to deliver goods to its customer, the State of California. ZM is entering into this agreement on a best efforts basis and no liability can be held on ZM for not delivering upon the PO's Due Date.

WHEREAS, OM and GC are not responsible for payment from the State of California.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Purpose. The purpose of this MOU is for ZM to finance and supply those certain POs received from the State of California and for OM to assign all rights title and interest which Assignor has in all accounts, sums, monies and payments due or to become due to Assignor under that certain purchase orders issued by the customer

2. ALLOCATIONS and Collections: All proceeds collected under the PO should be wired to an account selected by ZM or its assignee and shall be disbursed as follows:

- (a) All monies advanced by ZM in connection with the purchase of goods, transportation of goods, Customs duties paid, or any other expenses related to the fulfillment of the Pos, along with all fees and interest due shall be paid first to ZM.
- (b) All fees related to the sourcing and supplying of goods and any other approved expenses shall be paid to ZM
- (c) 50% of all remaining monies will be paid to ZM
- (d) \$2,875,000 of remaining monies shall be paid to GC (inclusive of both ZM and OM agreed upon amounts)
- (d) All remaining monies shall be paid to OM

3. ZM Contributions and Commitments. As consideration ZM will contribute the following:

- (a) ZM will supply all the goods under the POs at best efforts by the agreed upon or revised due dates of the Pos.

4. GC Commitments and Contributions

- (a) GC has contributed \$825,000 to OM to secure the PO's and sourcing partnerships.

5. ZM Commitments and Contributions

- (a) ZM Will Finance all goods including all shipping and Customs duties

6. OM Commitments and Contributions

- (a) The two POs received from the State of California
- (b) Assist ZM in any way necessary to fulfill the PO and manage the relationship with the state
- (c) Invoice the State of CA for Delivery of goods according to the direction of ZM

7. Additional items:

- (a) OM shall send a non-revocable letter of direction to State of California Department of General Services Procurement Division for all payments received from the POs
- (b) All communication with the State of California will need the approval of ZM and a representative of ZM and a representative of ZM should be copied into the communication
- (c) OM should promptly upon request from ZM or ZM communicate with the State of California in regard to the POs
- (d) If payments are mistakenly sent to OM. OM shall immediately inform ZM and send immediately forward all funds of the payment received to the designated bank account of ZM without delay, deductions, holdback, or offset of any kind for any reason.
- (e) Any future invoices OM receives from the State of California shall be offered to ZAAZ Medical to fund and fulfill on the same terms unless otherwise agreed upon in writing by both parties

7. Confidentiality. The Parties agree that the terms of this MOU are confidential and may not be disclosed, except as may be required by law or as contemplated by the Definitive Agreements, and except as to disclosure to the Parties' boards of managers, boards of directors, advisors and financial institutions, without the consent of the Parties, which shall not be unreasonably withheld or delayed. All such persons and parties must be bound to hold the terms of this MOU confidential. Notwithstanding the foregoing, the Parties acknowledge that ZM will make such disclosures regarding the general terms of the proposed transactions as required to fulfill their Obligations from the above sections. This Section shall survive the termination or expiration of this MOU.

8. Legal Effect. Until the Parties form the Company and enter into an operating agreement or shareholders' agreement with respect to the subject matter of this MOU, the provisions of this MOU shall be binding upon the Parties, including the WHEREAS clauses which form an integral part hereof.

9. Further Assurances. Each Party hereto shall execute and deliver all such further instruments and documents as may reasonably be requested by the other Party or Parties in order to carry out fully the intent, and to accomplish the purposes, of the Company business and the transactions contemplated hereby, including the Definitive Agreements.

10. Notice. Any notice or communication required or permitted under this MOU shall be sufficiently given if delivered in person or by certified mail, return receipt requested, internationally recognized overnight carrier or by electronically confirmed email to the address set forth in the opening paragraph or to such other address as one Party may have furnished to the other in writing.

11. Amendment; Severability; No Assignment. This MOU may be amended or supplemented in writing, if signed by all of the Parties. If any provision of this MOU is found to be invalid or Unenforceable for any reason, the remaining provisions will continue to be valid and Enforceable. If a court finds that any provision of this MOU is invalid or Unenforceable, then such provision shall be substituted with a valid provision which reflects as closely as Possible the intentions of the Parties hereunder. This Agreement may not be assigned by any Party or by operation of law or otherwise and, in the event of an attempted assignment, this Agreement shall terminate.

12. Governing Law This MOU shall be governed by, construed and enforced in accordance with the laws of the State of Texas, without regard to its conflicts of laws principles.

13. Counterparts. This MOU may be executed in counterparts. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

[Signature Pages Follows]

IN WITNESS THEREOF, the undersigned Parties have executed this MOU as of the Effective Date set forth above.

OFFICE MART, INC.

DocuSigned by:
Jason D. Angel
D1EB71C62715424...
By: _____
Name: Jason Angel
Title: CEO

JASON ANGEL

DocuSigned by:
Jason D. Angel
D1EB71C62715424...
By: _____
Name: JASON ANGEL

ZAAZ MEDICAL, INC

DocuSigned by:
[Signature]
20DE7C753EA54BD...
By: _____
Name: Ian Cruickshank
Title: CEO

Global Clean Solutions LLC

DocuSigned by:
Brian McFadden
7ABC8AA78CDB4CB...
By: _____
Name: Brian McFadden
Title: Member

This Amendment (the "Amendment") to the Memorandum of Understanding dated June 8, 2020 is entered into as of this 10th day of August, 2020 ("Effective Date"), by and among OFFICE MART, INC. ("OM"), a North Carolina corporation, JASON ANGEL ("JA"), in his individual capacity, GLOBAL CLEAN SOOLUTIONS, LLC ("GC"), a Nevada corporation and ZAAZ MEDICAL, INC. ("ZM"). OM, JA, GC and ZM shall also be referred to hereinafter as a "Party," and collectively, as the "Parties."

WHEREAS, on June 8, 2020 the parties entered into a Memorandum of Understanding ("MOU"); and

WHEREAS, the parties have elected to enter into this Amendment to define the transaction to date, the commitments and contributions by the Parties and the security and collateral going forward.

WHEREAS, the parties agree to be bound by the terms of this Amendment upon execution.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Partial Delivery of Purchase Order:

- (a) As of the Date first written above ZM has delivered 330,025 units pursuant to the State of California Purchase Order set forth in the MOU.
- (b) As of the Date first written above OM has collected payments from State of California in the amount of \$ _____.
- (c) Based on the partial delivery of the purchase order, ZM and OM agree that as of June 30, 2020, GC is owed _____% percentage of the fee of \$2,875,000 which equals \$ _____ (hereinafter referred to as "Partial Fee".)
- (d) ZM hereby agrees that such Partial Fee has been fully earned and shall be paid on or before August 31, 2020. GC has attached the invoice ("Exhibit A") for the Partial Fee which is incorporated herein by reference.

2. Commitments and Contributions:

- (a) GC contributed \$825,000, as a deposit, on or about May 27, 2020 to OM to secure the PO's and sourcing partnerships.
- (b) OM hereby agrees that such deposit shall be refunded within 90 days in cash.
- (c) In the sole discretion of GC, GC may accept repayment of the deposit in the form of acceptable goods. This acceptance of repayment in goods in the sole discretion of GC shall be confirmed in writing signed by all parties with detailed confirmation of receipt of the goods according to written specifications.
- (d) OM agrees that GC is due an amount of \$907,500 due for consulting fees (the "Consulting Fee") through June 30, 2020, of which \$50,000 has been paid as of the date of this Amendment. GC has forwarded OM an invoice ("Exhibit B") for such an amount.
- (e) OM shall agree to remit 20% of its collectables from its current or future customers to GC until the Consulting Fee is paid in full.
- (f) OM shall agree to remit 100% of any funds due to OM from any and all transactions that are closed and include GC's participation.

3. Security and Collateral:

- (a) GC shall file a UCC (the "UCC") ("Exhibit D"), against the assets of OM. The UCC shall be released by GC upon receipt of all funds due.
-

4. **Confidentiality.** The Parties agree that the terms of this MOU are confidential and may not be disclosed, except as may be required by law or as contemplated by the Definitive Agreements, and except as to disclosure to the Parties' boards of managers, boards of directors, advisors and financial institutions, without the consent of the Parties, which shall not be unreasonably withheld or delayed. All such persons and parties must be bound to hold the terms of this MOU confidential. Notwithstanding the foregoing, the Parties acknowledge that ZM will make such disclosures regarding the general terms of the proposed transactions as required to fulfill their Obligations from the above sections. This Section shall survive the termination or expiration of this MOU.
5. **Legal Effect.** Until the Parties form the Company and enter into an operating agreement or shareholders' agreement with respect to the subject matter of this MOU, the provisions of this MOU shall be binding upon the Parties, including the WHEREAS clauses which form an integral part hereof.
6. **Further Assurances.** Each Party hereto shall execute and deliver all such further instruments and documents as may reasonably be requested by the other Party or Parties in order to carry out fully the intent, and to accomplish the purposes, of the Company business and the transactions contemplated hereby, including the Definitive Agreements.
7. **Notice.** Any notice or communication required or permitted under this MOU shall be sufficiently given if delivered in person or by certified mail, return receipt requested, internationally recognized overnight carrier or by electronically confirmed email to the address set forth in the opening paragraph or to such other address as one Party may have furnished to the other in writing. Notices shall be sent to the following addresses (physical or email):

Office Mart, Inc.

Attn: Jason Angel
607 Benson Rd
Garner, NC 27529
Email: jason@officemart.com

Global Clean Solutions, LLC

Attn: Bryan Pantofel
45 SW 9th Street, Unit 1603
Miami, FL 33130

Email: bryanhpantofel@yahoo.com

ZAAZ Medical, Inc.

Attn: Ian Cruickshank
10605 Stebbins Circle
Houston, TX 77043
Email: ian@zaanmedical.com

8. **Amendment; Severability; No Assignment.** This MOU may be amended or supplemented in writing, if signed by all of the Parties. If any provision of this MOU is found to be invalid or Unenforceable for any reason, the remaining provisions will continue to be valid and Enforceable. If a court finds that any provision of this MOU is invalid or Unenforceable, then such provision shall be substituted with a valid provision which reflects as closely as Possible the intentions of the Parties hereunder. This Agreement may not be assigned by any Party or by operation of law or otherwise and, in the event of an attempted assignment, this Agreement shall terminate.
 9. **Governing Law** This MOU shall be governed by, construed and enforced in accordance with the laws of the State of Pennsylvania without regard to its conflicts of laws principles.
 10. **Counterparts.** This MOU may be executed in counterparts. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, e.g., www.docuSign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.
-

IN WITNESS THEREOF, the undersigned Parties have executed this Amendment as of the Effective Date set forth above.

OfficeMart, Inc.

By: _____ August 10, 2020
Name: Jason Angel
Title: CEO

Zaaz Medical, Inc.

By: _____ August 10, 2020
Name: Ian Cruickshank
Title: CEO

Global Clean Solutions LLC

By: _____ August 10, 2020
Name: Brian McFadden
Title: Member

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: August 18, 2020

/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, Brett Vroman, 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: August 18, 2020

/s/ Brett Vroman

Brett Vroman
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 June 30, 2020, 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: August 18, 2020

/s/ Christopher B. Ferguson

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

Date: August 18, 2020

/s/ Brett Vroman

Brett Vroman
Chief Financial Officer
(Principal Financial Officer)
