

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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)

**82-2199200**

(IRS Employer  
Identification Number)

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

**08865**  
(Zip Code)

**(610) 829-1039**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 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

As of November 14, 2018, there were 5,052,104 shares of the registrant's common stock outstanding.

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

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**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” and similar terms refer to Edison Nation, Inc., a Nevada corporation formerly known as Xspand Products Lab, Inc. and Idea Lab Products, Inc., and our subsidiaries S.R.M. Entertainment Limited (“SRM”), Ferguson Containers, Inc. (“Fergco”), CBAV1, LLC (“CB”), Edison Nation Holdings, LLC and its wholly-owned subsidiaries (“EN”).

Unless otherwise indicated, all share and per share information contained herein gives effect to the 1:33333 reverse stock split of our common stock, which was effective February 14, 2018.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, 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; and
- Our ability to respond and adapt to changes in technology and customer behavior.

This Quarterly Report 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 - FINANCIAL INFORMATION**

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

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,061,039	\$ 557,268
Accounts receivable, net	2,832,513	1,430,236
Inventory	200,087	240,061
Prepaid expenses and other current assets	1,114,924	41,461
Loan held for investment	500,000	-
Due from related party	1,307,247	834,897
Total current assets	<u>8,015,810</u>	<u>3,103,923</u>
Property and equipment, net	969,671	966,904
Goodwill	12,785,855	-
Patents	53,822	-
Total assets	<u>\$ 21,825,158</u>	<u>\$ 4,070,827</u>
<b>Liabilities and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,323,402	\$ 1,135,039
Accrued expenses and other current liabilities	935,946	137,709
Current portion of notes payable related parties	285,015	225,553
Total current liabilities	<u>2,544,363</u>	<u>1,498,301</u>
Notes payable - related parties, non-current – net of debt discount	3,520,867	2,770,947
Notes payable	73,559	-
Derivative liability – put option contract	7,415,100	-
Deferred tax liability	34,209	34,209
Total liabilities	<u>\$ 13,588,098</u>	<u>\$ 4,303,457</u>
Commitments and contingencies (Note 10)		
<b>Stockholders' equity (deficit)</b>		
Common stock, \$0.001 par value, 250,000,000 shares authorized; 5,040,004 and 3,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	\$ 5,040	\$ 3,000
Additional paid-in capital	12,450,922	-
Accumulated deficit	<u>(4,218,902)</u>	<u>(235,630)</u>
Total stockholders' equity (deficit)	<u>8,237,060</u>	<u>(232,630)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 21,825,158</u>	<u>\$ 4,070,827</u>

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

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

	<b>For the Three Months</b>		<b>For the Nine months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues, net</b>	\$ 4,940,188	\$ 3,174,722	\$ 12,758,715	\$ 11,571,468
Cost of revenues	3,637,000	2,142,947	9,090,215	8,226,062
<b>Gross profit</b>	<b>1,303,188</b>	<b>1,031,775</b>	<b>3,668,500</b>	<b>3,345,406</b>
<b>Operating expenses:</b>				
Selling, general and administrative	2,065,655	770,109	6,276,830	1,933,152
Operating (loss) income	<u>(762,467)</u>	<u>261,666</u>	<u>(2,608,330)</u>	<u>1,412,254</u>
<b>Other (expense) income:</b>				
Rental income	25,704	25,704	77,111	77,111
Change in fair value of put option contract	(732,600)	-	(732,600)	-
Interest (expense) income	(42,130)	1,228	(407,267)	3,671
Total other (expense) income	<u>(749,026)</u>	<u>26,932</u>	<u>(1,062,756)</u>	<u>80,782</u>
(Loss) income before income taxes	<u>(1,511,493)</u>	<u>288,598</u>	<u>(3,671,086)</u>	<u>1,493,036</u>
Income tax expense (benefit)	167,813	(26,570)	312,186	64,655
<b>Net (loss) income</b>	<b>\$ (1,679,306)</b>	<b>\$ 315,168</b>	<b>\$ (3,983,272)</b>	<b>\$ 1,428,381</b>
Net (loss) income per share - basic and diluted	<u>\$ (0.37)</u>	<u>\$ 0.11</u>	<u>\$ (1.11)</u>	<u>\$ 0.48</u>
Weighted average number of common shares outstanding – basic and diluted	<u>4,560,607</u>	<u>3,000,000</u>	<u>3,577,942</u>	<u>3,000,000</u>

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

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

**For the Nine months Ended September 30, 2018**

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Deficit</u>	<u>Stockholders'</u> <u>Equity</u>
<b>Balance, December 31, 2017</b>	3,000,000	\$ 3,000	\$ -	\$ (235,630)	\$ (232,630)
Sale of common stock – investors in the IPO, net of offering costs	1,312,520	1,313	5,357,257		5,358,570
Issuance of common stock to employees	61,900	62	309,438		309,500
Issuance of common stock to note holders	33,500	33	167,467		167,500
Issuance of common stock to vendors for services	75,000	75	374,925		375,000
Issuance of common stock to satisfy indebtedness related to acquisition of Edison Nation Holdings, LLC	557,084	557	3,759,760		3,760,317
Beneficial conversion option on indebtedness related to acquisition of Edison Nation Holdings, LLC			500,000		500,000
Stock-based compensation			1,982,076		1,982,076
Net loss				(3,983,272)	(3,983,272)
<b>Balance, September 30, 2018</b>	<u>5,040,004</u>	<u>\$ 5,040</u>	<u>\$12,450,923</u>	<u>\$ (4,218,902)</u>	<u>\$ 8,237,061</u>

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

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

	<b>For the Nine months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flow from Operating Activities</b>		
Net (loss) income	\$ (3,983,272)	\$ 1,428,381
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	120,004	157,765
Amortization of financing costs	266,944	-
Stock-based compensation	2,666,576	-
Change in fair value of put option contract	732,600	-
Changes in assets and liabilities:		
Accounts receivable	(1,402,277)	(97,251)
Inventory	39,974	629
Prepaid expenses and other current assets	(1,011,586)	(59,508)
Accounts payable	55,194	331,745
Accrued expenses and other current liabilities	780,564	35,645
Due from related party	(472,351)	(710,805)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,207,630)</b>	<b>1,086,601</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(121,186)	(47,792)
Acquisition of Edison Nation Holdings, LLC and Subsidiaries, net of cash received	(881,318)	-
Purchase of loan held for investment	(500,000)	-
<b>Net cash used in investing activities</b>	<b>(1,502,504)</b>	<b>(47,792)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings under notes payable	718,559	-
Repayments under notes payable – related parties	(645,000)	-
Repayments under notes payable	(118,779)	-
Net proceeds from sale of common stock	5,358,570	-
Fees paid for financing costs	(99,444)	-
Dividends paid	-	(2,813,607)
<b>Net cash provided by (used in) financing activities</b>	<b>5,213,906</b>	<b>(2,813,607)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,503,771</b>	<b>(1,774,798)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>557,268</b>	<b>2,534,753</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 2,061,039</b>	<b>\$ 759,955</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest	\$ 93,044	\$ -
Income taxes	\$ -	\$ 52,386
Shares issued to note holders	\$ 167,500	\$ -
Shares issued for the acquisition of Edison Nation Holdings, LLC	\$ 3,760,317	\$ -
Shares reserved in exchange for the cancellation of certain non-voting membership interests related to acquisition of Edison Nation Holdings, LLC	\$ 6,682,500	\$ -
Borrowings under note payable for the purchase of property and equipment	\$ 73,559	\$ -
Issuance of 4%, 5 year senior convertible notes for the acquisition of Edison Nation Holdings, LLC	\$ 1,428,161	\$ -

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

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

**Note 1 — Business Organization and Nature of Operations**

As used herein, the terms the “Company,” “Edison Nation” “we,” “us,” “our” and similar refer to Edison Nation, Inc., a Nevada corporation formerly known as Xspand Products Lab, Inc. and Idea Lab Products, Inc., and/or its wholly-owned operating subsidiaries, and/or where applicable, its management.

Edison Nation, Inc. was incorporated on July 18, 2017 under the laws of the State of Nevada as Idea Lab X Products, Inc. On October 26, 2017, Idea Lab X Products, Inc. changed its name to Xspand Products Lab, Inc. and on September 12, 2018 changed its name again to Edison Nation, Inc.

As of September 30, 2018, Edison Nation had four wholly-owned subsidiaries: S.R.M. Entertainment Limited (“SRM”), Ferguson Containers, Inc. (“Fergco”), CBAV1, LLC (“CB”) and Edison Nation Holdings, LLC. Edison Nation Holdings, LLC is the single member of Edison Nation, LLC, Everyday Edisons, LLC, and Edison Nation Products, LLC. Edison Nation, LLC is the single member of Safe TV Shop, LLC. SRM was incorporated in Hong Kong on January 14, 1981 and primarily designs, manufactures and sells a broad variety of innovative toy products directly to retailers or direct to consumers via ecommerce in North America, Asia and Europe. Fergco was incorporated on September 14, 1966 under the laws of the State of New Jersey. Fergco primarily designs, manufactures and sells packaging and packaging materials for industrial and pharmaceutical companies in North America. Edison Nation Holdings, LLC and all of its subsidiaries (collectively “EN”) are North Carolina limited liability companies. EN generates revenues and related cash flows from the acquisition of intellectual property rights from private inventors and the commercialization of that intellectual property. In order to acquire intellectual property rights, EN operates a website where inventors submit their innovative product ideas. The intellectual property rights acquired through these various sources is then licensed to either manufactures or retailers. In certain instances, the Company develops the intellectual property into innovative products and in other cases the intellectual property is licensed “as is”. In certain other instances the Company develops the intellectual property into products for the Direct Response Television (DRTV) market. For these products, the Company develops and tests infomercials, and then, for those with positive test results, licenses the products to strategic partners in the DRTV industry. The inventors of the intellectual property are paid a percentage of the Company’s revenue from its commercialization. This percentage varies with the Company’s investment in the development of the intellectual property.

On September 30, 2017, SRM and Fergco were acquired by the Company in exchange for an aggregate of 3,000,000 shares of the Company common stock and notes payable aggregating \$2,996,500. This transaction between entities under common control resulted in a change in reporting entity and required retrospective combination of the entities for all periods presented, as if the combination had been in effect since the inception of common control. Accordingly, the condensed consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiaries at historical carrying values, except that equity reflects the equity of the Company.

On February 14, 2018, the Company effected a one-for-3.333333 reverse stock split of its issued and outstanding shares of common stock. All share information has been retroactively restated to reflect the aforementioned reverse stock split.

CB was formed on May 14, 2018 under laws of the State of Nevada. CB was formed for the purpose of purchasing a promissory note from a bank, at a discount from face value, of a company in financial difficulty. CB currently has no operations and only holds the note as a loan held for investment.

On September 4, 2018, Edison Nation Holdings, LLC and its wholly-owned subsidiaries were acquired by the Company.

**Note 2 — Summary of Significant Accounting Policies**

Basis of Presentation

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 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 September 30, 2018 and the results of operations, changes in stockholders’ equity (deficit), and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the operating results for the full fiscal year for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. 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, 2017, and updated, as necessary, in this Quarterly Report on Form 10-Q.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Edison Nation, Inc. and its wholly-owned subsidiaries, SRM, Fergco, CB and EN. All intercompany transactions and balances have been eliminated in consolidation.

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, loan loss reserves, the valuation allowance related to the Company's deferred tax assets and the recoverability and useful lives of long-lived assets. 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.

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

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

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.

Loan Held for Investment

Loan held for investment is reported on the balance sheet at the acquired cost which approximates the fair value, which resulted in a discount. The acquired loan had evidence of deterioration of credit quality and for which it was probable, at the time of our acquisition, that the Company would be unable to collect all contractually required payments. For these loans, the excess of the undiscounted contractual cash flows over the undiscounted cash flows estimated by us at the time of acquisition was not accreted into income (nonaccretable discount). The amount representing the excess of cash flows estimated by us at acquisition over the purchase price was accreted into purchase discount earned over the life of the applicable loans (accretable discount). The nonaccretable discount was not accreted into income. If cash flows could not be reasonably estimated for any loan, and collection was not probable, the cost recovery method of accounting was used. Under the cost recovery method, any amounts received were applied against the recorded amount of such loans.

Subsequent to acquisition, if cash flow projections improved, and it was determined that the amount and timing of the cash flows related to the nonaccretable discount was reasonably estimable and collection was probable, the corresponding decrease in the nonaccretable discount was transferred to the accretable discount and was accreted into interest income over the remaining life of any such loan on the interest method. If cash flow projections deteriorated subsequent to acquisition, the decline was accounted for through the allowance for loan losses. Depending on the timing of an acquisition, the initial allocation of discount generally is made primarily to nonaccretable discount until the Company is able to assess any cash flows expected to be collected over the purchase price which are then transferred to accretable discount.

Goodwill

We record intangible assets based on their fair value on the date of acquisition. Goodwill is recorded for the difference between the fair value of the purchase consideration over the fair value of the net identifiable tangible and intangible assets acquired. We perform an impairment assessment of goodwill on an annual basis, or whenever impairment indicators exist. In the absence of any impairment indicators, goodwill is assessed for impairment during the fourth quarter of each fiscal year. Judgments regarding the existence of impairment indicators are based on market conditions and operational performance of the business.

We may assess our goodwill for impairment initially using a qualitative approach to determine whether it is more likely than not that the fair value of these assets is greater than their carrying value. When performing a qualitative test, we assess various factors including industry and market conditions, macroeconomic conditions and performance of our businesses. If the results of the qualitative assessment indicate that it is more likely than not that our goodwill and other indefinite-lived intangible assets are impaired, a quantitative impairment analysis would be performed to determine if impairment is required. We may also elect to perform a quantitative analysis of goodwill initially rather than using a qualitative approach.

The impairment testing for goodwill is performed at the reporting unit level. The valuation methods used in the quantitative fair value assessment, discounted cash flow and market multiples method, require our management to make certain assumptions and estimates regarding certain industry trends and future profitability of our reporting units. If the fair value of a reporting unit exceeds the related carrying value, the reporting unit's goodwill is considered not to be impaired and no further testing is performed. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is recorded for the difference. The valuation of goodwill is affected by, among other things, our business plan for the future and estimated results of future operations. Future events could cause us to conclude that impairment indicators exist, and, therefore, that goodwill may be impaired.

Intangible assets - patents

Intangible assets include the cost of patents or patent rights (hereinafter, collectively "patents") and trademarks. Patent and trademark costs are amortized utilizing the straight-line method over their remaining economic useful lives. Costs incurred related to patents prior to issuance are included in prepaid patent expense until the time the patent is issued and amortization begins or until management determines it is no longer likely the patent will be issued and amounts are expensed. Edison Nation reviews long-lived assets and intangible assets for potential impairment annually and when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss is recorded equal to the excess of the asset's carrying value over its fair value. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. In the event that management decides to no longer allocate resources to a patent portfolio, an impairment loss equal to the remaining carrying value of the asset is recorded.

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.

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.

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

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

Substantially all of the Company's revenues continue to be recognized when control of the goods are transferred to the customer, which is upon shipment of the finished goods to the customer. All sales have fixed pricing and there are currently no 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 for innovative products (SRM and EN) and packaging materials to industrial and pharmaceutical companies (Fergco). 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 nine months ended September 30, 2018 and 2017 was as follows:

	<u>For the Three Months</u> <u>Ended September 30,</u>		<u>For the Nine months</u> <u>Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>				
Product sales	\$ 4,858,055	\$ 3,174,722	\$12,676,582	\$11,571,468
Other revenues	82,133	-	82,133	-
Total revenues	<u>\$ 4,940,188</u>	<u>\$ 3,174,722</u>	<u>\$12,758,715</u>	<u>\$11,571,468</u>

For a presentation of the Company's revenues disaggregated by segment, see Note 12, Segment Reporting.

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.

As of September 30, 2018, the book value and estimated fair value of the Company's level 3 instruments was as follows:

	<u>September 30, 2018</u>	
	<u>Book Value</u>	<u>Estimated Fair Value</u>
Loan held for investment	\$ 500,000	\$ 500,000
Derivative liability – put option contract	\$ (7,415,100)	\$ (7,415,100)

Financial instruments for which fair value is disclosed but not required to be recognized in the balance sheet on a recurring basis consisted of the following:

	<u>September 30, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Loan held for investment	\$ 500,000	-	-	\$ 500,000

The following changes in level 3 instruments for the three months ended September 30, 2018 are presented below:

	<b>Loan Held For Investment</b>	<b>Derivative Liability – Put Option Contract</b>
Balance, July 1, 2018	\$ 500,000	\$ -
Purchases	-	-
Sales	-	(6,682,500)
Change in fair value	-	(732,600)
Balance, September 30, 2018	\$ 500,000	\$ (7,415,100)

The following changes in level 3 instruments for the nine months ended September 30, 2018 are presented below:

	<b>Loan Held For Investment</b>	<b>Derivative Liability – Put Option Contract</b>
Balance, January 1, 2018	\$ -	\$ -
Purchases	500,000	-
Sales	-	6,682,500
Change in fair value	-	(732,600)
Balance, September 30, 2018	\$ 500,000	\$ (7,415,100)

#### 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 (HK dollars) 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 nine months ended September 30, 2018 and 2017 and the cumulative translation gains and losses as of September 30, 2018 and December 31, 2017 were not material.

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

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

Income Taxes

The Company accounts for income taxes under the provisions of the Financial Accounting Standards Board (“FASB”) ASC Topic 740 “Income Taxes” (“ASC Topic 740”).

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of items that have been included or excluded in the financial statements or tax returns. Deferred tax assets and liabilities are determined on the basis of the difference between the tax basis of assets and liabilities and their respective financial reporting amounts (“temporary differences”) at enacted tax rates in effect for the years in which the temporary differences are expected to reverse.

The Company utilizes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the Company’s condensed consolidated financial statements as of September 30, 2018 and December 31, 2017. The Company does not expect any significant changes in its unrecognized tax benefits within twelve months of the reporting date.

The Company’s policy is to classify assessments, if any, for tax related interest as interest expense and penalties as general and administrative expenses in the statements of operations.

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”) was signed into law. This legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The TCJA permanently reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

The staff of the SEC issued Staff Accounting Bulletin No. 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. Although the Company is unable to make a reasonable estimate on the full effect on our income taxes as of the date of this report, the Company remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The remeasurement of the Company’s deferred tax assets and liabilities was offset by a change in the valuation allowance.

The Company is still in the process of analyzing the impact to the Company of the TCJA. Where the Company has been able to make reasonable estimates of the effects related to which its analysis is not yet complete, the Company has recorded provisional amounts. The ultimate impact to the Company’s condensed consolidated financial statements of the TCJA may differ from the provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the TCJA. The accounting is expected to be complete when the Company’s 2017 U.S. corporate income tax return is filed in 2018.

Net Earnings or Loss per Share

Basic net (loss) income per common share is computed by dividing net (loss) income by the weighted average number of vested common shares outstanding during the period, adjusted to give effect to the 1-for-3.333333 reverse stock split, which was effected on February 14, 2018. 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 September 30, 2017, there were no common stock equivalents outstanding. As of September 30, 2018, the Company excluded the common stock equivalents summarized below, which entitle the holders thereof to ultimately acquire shares of common stock, from its calculation of earnings per share, as their effect would have been anti-dilutive.

	<b>September 30, 2018</b>
Selling Agent Warrants	65,626
Shares reserved in exchange for the cancellation of certain non-voting membership interest in Edison Nation Holdings, LLC	990,000
Options	290,000
Convertible shares under notes payable	285,632
<b>Total</b>	<b>1,631,258</b>

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

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

Concentrations

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivables and revenues.

The Company has cash on deposits 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 \$1,352,000 uninsured at September 30, 2018. The Company held cash of approximately \$360,000 in foreign bank accounts as of September 30, 2018.

For the three and nine months ended September 30, 2018 and 2017, the following customers represented more than 10% of total net revenues:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Customer A	23%	*	10%	*
Customer B	*	16%	17%	25%

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

As of September 30, 2018, the following customers represented more than 10% of total accounts receivable:

	<b>September 30, 2018</b>
Customer A	29%
Customer B	12%

For the three and nine months ended September 30, 2018 and 2017, the following geographical regions represented more than 10% of total net revenues:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
North America	84%	81%	81%	81%
Asia-Pacific	11%	12%	15%	13%

Deferred Financing Costs

Deferred financing costs include debt discounts and debt issuance costs related to a recognized debt liability and are presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Amortization of deferred financing costs are included as a component of interest expense. Deferred financing costs are amortized using the straight-line method over the term of the recognized debt liability which approximates the effective interest method.

Offering Costs

Costs directly attributable to the Company’s Regulation A initial public offering (“IPO”) of equity securities were deferred prior to the completion of the IPO and charged against the gross proceeds of the offering as a reduction of additional paid-in capital at the time of the IPO. These costs included legal fees to draft the Company’s offering statement and provide counsel related to the IPO, fees incurred by the independent registered public accounting firm directly related to the IPO, fees incurred by financial reporting advisors directly related to the IPO, SEC filing, printing and distribution expenses, roadshow expenses and exchange listing fees.

Derivative Financial Instruments

Derivative financial instruments are recorded on the balance sheet as either an asset or a liability and measured at fair value. The derivatives does not qualify as a hedge and is not designated as a hedge. The change in the fair value of the derivative financial instrument is recognized in condensed consolidated statement of operations.

## Recent Accounting Pronouncements

In January 2018, the FASB issued Accounting Standards Update No. 2017-01 (“ASU 2017-01”), Business Combinations (Topic 805): Clarifying the Definition of a Business. The standard clarifies the definition of a business with the objective of providing guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this standard was effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard in the first quarter of 2018 and the adoption did not have an impact on the Company’s results or consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 (“ASU 2018-02”), Income Statement -Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard provides for a reclassification from accumulated other comprehensive earnings (“AOCE”) to retained earnings, of disproportionate income tax effects arising from the impact of the Tax Cuts and Jobs Act of 2017. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2018-02 in the first quarter of 2018. The impact of the adoption resulted in a one-time reclassification in the amount of \$21,503 from AOCE with a corresponding credit to retained earnings.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (ASC 230) – Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice across all industries, in how certain transactions are classified in the statement of cash flows. ASU 2016-15 was effective for public companies for fiscal years beginning after December 15, 2017. The Company adopted this standard in 2018 and the adoption of this standard did not have an impact on the Company’s statement of cash flows for the nine-month periods ended September 30, 2018 and 2017.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16 (ASU 2016-16), Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. For public companies, this standard was effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs requiring any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings. The Company adopted this standard in the first quarter of 2018 and the adoption did not have an impact on the Company’s results or consolidated financial statements.

In February 2016, the FASB issued accounting guidance which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. This accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. Additionally, this accounting guidance requires a modified retrospective transition approach for all leases existing at, or entered into after the date of initial application, with an option to use certain transition relief. In July 2018, the FASB issued a practical expedient that would allow entities the option to apply the provisions of the new lease guidance at the effective date of adoption without adjusting the comparative periods presented. We have not yet adopted this standard and are currently evaluating the effect this standard will have on our financial statements.

In May 2017, the FASB issued accounting guidance on determining which changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted, and is applied prospectively to changes in terms or conditions of awards occurring on or after the adoption date. We have adopted this accounting guidance effective January 1, 2018, with no impact on our financial statements as there were no changes to the terms or conditions of share-based payment awards.

In June 2018, the FASB issued an amendment to the accounting guidance related to accounting for employee share-based payments which clarifies that an entity should recognize excess tax benefits in the period in which the amount of the deduction is determined. This amendment is effective for annual periods beginning after December 15, 2018. We have not yet adopted this accounting guidance and are currently evaluating the effect this accounting guidance will have on our financial statements.

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

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

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

### Subsequent Events

The Company has evaluated subsequent events through the date which the financial statements were issued. Based upon the evaluation, except for items described in Note 12, 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 classified the reportable operating segments into (i) design, manufacture and sale or licensing of a broad variety of innovative products sold directly to retailers or direct to consumers via ecommerce in North America, Asia and Europe by SRM and EN and (ii) the design, manufacture and sale of packaging and packaging materials to industrial and pharmaceutical companies in North America by Fergco. CB does not have any material operations. Therefore, as of September 30, 2018, CB is not classified in either of the Company’s operating segments.

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

**Note 3 — Acquisition**

On September 4, 2018, the Company completed the acquisition of all of the voting membership interest of Edison Nation Holdings, LLC for a total purchase price of \$12,320,978 comprising of (i) \$950,000 cash (ii) the assumption of the remaining balance of the senior convertible debt through the issuance to the holders of 4%, 5-year senior convertible notes (the “New Convertible Notes”), in the aggregate principal and interest amount of the sum of \$1,428,161, less debt discount of \$500,000 for the approximate fair value of the conversion feature, which are convertible into approximately 285,632 shares of the Company’s common stock, at the option of the holder of such New Convertible Notes (subject to certain adjustments as provided in the Membership Interest Purchase Agreement (the “Purchase Agreement”) among the Company and Edison Nation Holdings, LLC and Edison Nation Holdings, LLC members dated June 29, 2018 and the terms of the New Convertible Notes), (iii) the reservation of 990,000 shares of the Company’s common stock that may be issued in exchange for the redemption of certain non-voting membership interests of EN that will be created specifically in connection with the transaction contemplated by the Purchase Agreement (which exchange obligations may be instead satisfied in cash instead of shares of common stock, in the Company’s sole discretion), and (iv) the issuance of 557,084 shares of the Company’s common stock in satisfaction of the indebtedness represented by promissory notes payable by EN to Venture Six, LLC and Wesley Jones with a total principal balance of \$4,127,601.94 as of the date of the Purchase Agreement. The following table summarizes the aggregate purchase price consideration paid to acquire Edison Nation Holdings, LLC:

	<b>September 4, 2018</b>
Cash paid to members of Edison Nation Holdings, LLC	\$ 700,000
Repayment of debt and related obligations	250,000
Issuance of 4%, 5-year senior convertible notes to satisfy indebtedness and related obligations	1,428,161
Reservation of 990,000 shares of the Company’s common stock that may be issued in exchange for the redemption of certain non-voting membership interests of EN	6,682,500
Issuance of 557,084 shares of the Company’s common stock to satisfy indebtedness and related obligations	3,760,317
	<b>\$ 12,820,978</b>

The Company believes that this combination will further strengthen its future growth opportunities while also increasing product diversification. The Company accounted for this acquisition as a business combination under the acquisition method of accounting. The following table summarizes the preliminary purchase price allocation of fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<b>September 4, 2018</b>
Cash and cash equivalents	\$ 68,682
Accounts receivable	15,259
Other current assets	40,204
Property and equipment	1,852
Patents	53,750
Goodwill	12,785,855
Total assets acquired	<b>12,965,602</b>
Accounts payable	75,711
Accrued expenses and other current liabilities	68,913
Total liabilities assumed	<b>144,624</b>
	<b>\$ 12,820,978</b>

The Company has preliminarily allocated the majority of the purchase price to goodwill due to the EN entities generating only minimal historical cash flows and therefore minimal identifiable intangible assets. The Company anticipates the goodwill will be tax deductible.

EN’s results of operations have been included in our consolidated financial statements beginning on September 4, 2018. EN’s contributed revenue of \$78,488 and net income of \$11,384 for the period from the date of acquisition through September 30, 2018.

The following table summarizes the unaudited pro-forma consolidated results of operations for the three and nine months ended September 30, 2018 and September 30, 2017 as if the acquisition had occurred on January 1, 2017:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues, net</b>	\$ 5,117,995	\$ 3,487,352	\$ 13,279,279	\$ 12,445,560
Cost of revenues	3,637,000	2,233,907	9,116,670	8,375,279
<b>Gross profit</b>	<b>1,480,995</b>	<b>1,253,445</b>	<b>4,162,609</b>	<b>4,070,281</b>

<b>Operating expenses:</b>				
Selling, general and administrative	2,196,686	1,043,093	6,776,134	2,764,771
Operating (loss) income	<u>(715,691)</u>	<u>210,352</u>	<u>(2,613,525)</u>	<u>1,305,510</u>
<b>Other (expense) income:</b>				
Rental income	25,704	25,704	77,111	77,111
Change in fair value of put option contract	(732,600)	-	(732,600)	-
Interest (expense) income	(42,128)	1,228	(407,260)	3,690
Total other (expense) income	<u>(749,024)</u>	<u>26,932</u>	<u>(1,062,749)</u>	<u>80,801</u>
(Loss) income before income taxes	<u>(1,464,715)</u>	<u>237,284</u>	<u>(3,676,274)</u>	<u>1,386,311</u>
Income tax expense (benefit)	<u>167,813</u>	<u>(26,570)</u>	<u>312,186</u>	<u>64,655</u>
<b>Net (loss) income</b>	<u>\$ (1,632,528)</u>	<u>\$ 263,854</u>	<u>\$ (3,988,460)</u>	<u>\$ 1,321,656</u>
Net (loss) income per share - basic and diluted	<u>\$ (0.33)</u>	<u>\$ 0.07</u>	<u>\$ (0.96)</u>	<u>\$ 0.37</u>
Weighted average number of common shares outstanding – basic and diluted	<u>4,954,199</u>	<u>3,557,084</u>	<u>4,151,528</u>	<u>3,557,084</u>

The unaudited pro-forma consolidated results above are based on the historical financial statements of the Company and EN and are not necessarily indicative of the results of operations that would have been achieved if the acquisition was completed at the beginning of Fiscal 2017 and are not indicative of the future operating results of the combined company. The financial information for EN prior to the acquisition has been included in the pro-forma results of operations on a calendar-year basis and includes certain adjustments to EN's historical consolidated financial statements to align with U.S. GAAP and the Company's accounting policies. The pro-forma consolidated results of operations also include the effects of purchase accounting adjustments. The pro-forma consolidated financial statement also reflect the impact of debt repayment and borrowings made to finance the acquisition and exclude historical interest expense for EN. Transaction costs of \$239,682 and \$84,980 for the three and nine months ended December 30, 2017, which have been in the Company's consolidated statements of operations, have been excluded from the above pro-forma consolidated results of operations due to their non-recurring nature.

#### Note 4 — Inventory

As of September 30, 2018 and December 31, 2017, inventory consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Raw materials	\$ 23,896	\$ 30,410
Finished goods	176,191	209,651
Total inventory	<u>\$ 200,087</u>	<u>\$ 240,061</u>

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**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 — Prepaid expenses and other current assets**

As of September 30, 2018 and December 31, 2017, prepaid expenses and other current assets consisted of the following:

	September 30, 2018	December 31, 2017
Deposits for inventory	\$ 831,744	\$ -
Deposits	45,458	22,814
Retainers with consultants	158,500	
Prepaid insurance	34,461	-
Deposits	13,478	-
Other	31,283	18,647
<b>Total prepaid expenses and other current assets</b>	<b>\$ 1,114,924</b>	<b>\$ 41,461</b>

**Note 6 — Loan held for investment**

On June 4, 2018, the Company purchased a promissory note for \$500,000 from a bank at a discount from face value of a company in financial difficulty. As of September 30, 2018, the loan held-for-investment consisted of the following:

	September 30, 2018
Cloud b, Inc., Promissory note, past due, Wall Street Journal prime rate plus 3% interest	\$ 2,270,000
Non-accretable purchase discount	(1,770,000)
<b>Total loan held-for-investment</b>	<b>\$ 500,000</b>

The interest rate of the promissory note as of September 30, 2018 was 8%. On October 29, 2018, the Company purchased 72.15% of the outstanding capital stock of Cloud B, see Note 13, Subsequent Events.

**Note 7 — Income Taxes**

Fergco was a Subchapter S pass-through entity for income tax purposes prior to its acquisition by the Company on September 30, 2017. Accordingly, Fergco was not subject to income taxes prior to the acquisition and therefore the tax provision related to the United States income is only for the period from January 1, 2018 to September 30, 2018.

The Company's foreign entity is SRM, which is an entity subject to the Hong Kong, China tax regime. The Hong Kong tax returns remain subject to examination by local taxing authorities beginning with the tax year ended December 31, 2011.

Edison Nation Holdings, LLC and its subsidiaries are limited liability corporation pass-through entities for income tax purposes prior to its acquisition by the Company on September 4, 2018. Accordingly, EN was not subject to income taxes prior to the acquisition and the results of operations were not material therefore the tax provision related to the United States income is only for the period from September 4, 2018 to September 30, 2018.

The statutory federal income tax rate differs from the Company's effective tax rate due to the valuation allowance related to nondeductible expenses partially offset by lower foreign income taxes in Hong Kong.

**Note 8 — Notes Payable**

The Company borrowed funds under two separate notes, aggregating \$645,000, in February 2018 and March 2018. As of September 30, 2018, both holders of the notes were paid in full. In addition, the Company was required to issue 20,000 and 13,500 shares under the notes payable, respectively. The fair value of the shares to be issued was \$167,500 which was recorded as a debt discount and fully amortized through interest expense. In May 2018, the Company issued 13,500 shares to the one note holder and 20,000 shares were still required to be issued as of September 30, 2018.

On September 7, 2018, the Company borrowed 73,559 related to the purchase of a commercial delivery vehicle. The monthly payments under the note are \$1,371 commencing on October 6, 2018 and maturing on September 6, 2023.

**Note 9 — Related Party Transactions**

As of September 30, 2018 and December 31, 2017, due from related party consists of amounts due from SRM Entertainment Group LLC ("SRM LLC"), which was the parent of SRM prior to its acquisition by the Company, related to operating expenses that were paid for on behalf of one related party to the other related party. As of September 30, 2018 and December 31, 2017, the net amount due from related parties was \$1,307,247 and \$834,897, respectively. Such amounts are due currently.

In connection with the acquisition of SRM and Fergco, the Company issued two notes payable aggregating \$2,996,500. One note was issued to NL Penn Capital, L.P, in relation to the acquisition of SRM in the amount of \$2,120,000 and the other note was issued to the stockholders of Fergco in the amount of \$876,500. The notes bear interest at a rate of six percent (6%) per annum and have an effective

interest rate of six percent (6%) per annum. The Company is required to make monthly payments comprised of principal and interest beginning in January 2018 that are amortized over ten (10) years, with a balloon payment of all outstanding principal and interest due at the respective maturity dates (\$677,698 due on December 1, 2020 and \$1,249,043 due on December 1, 2022).

In connection with the acquisition of EN, the Company issued five senior convertible notes payable aggregating \$1,428,161. The notes have an effective interest rate of four percent (4%) per annum. The Company is required to make semi-annual interest payments on June 30th and December 31st of each year. The notes have an option to convert at a conversion price of \$5.00. Prepayments are not allowed under the notes without the prior written consent of applicable holders of a note until the second anniversary of the effective date of the note, after which time the notes may be prepaid without penalty at any time upon sixty (60) days' written notice to the holders, as long as the Company has filed a Registration Statement on Form S-3 with the SEC. If the conversion option is not elected by the holder, all outstanding principal and interest is due on September 4, 2023. The Company recorded a debt discount of \$500,000 related to the beneficial conversion feature that will be amortized over five (5) years to interest expense.

Related party interest expense was \$145,656 and \$0 for the nine months ended September 30, 2018 and 2017, respectively. The scheduled maturities of the notes payable for the next five years as of September 30, 2018, are as follows:

<b>For the Years Ended December 31,</b>	<b>Amount</b>
2018	\$ 106,770
2019	239,461
2020	254,230
2021	857,069
2022	1,420,190
Thereafter	1,428,162
	<u>4,305,882</u>
Less: debt discount	(500,000)
	<u>\$ 3,805,882</u>

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

**Note 10 — Commitments and Contingencies**

Operating Lease

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

The Company leases certain office space from an entity affiliated through common ownership under operating lease agreement. The operating lease requires base monthly payments of \$3,333 plus the Company's share of the facilities operating expenses as defined in the lease agreement through May 2017. The lease agreement contains four successive five year renewal options with 5% base rent escalations at the end of each extension period. Minimum annual rental commitments for operating leases of continuing operations having initial or remaining noncancellable lease terms in excess of one year are as follows:

Total rent expense for the three months ended September 30, 2018 and 2017 was \$65,244 and \$83,218, respectively and total rent expense for the nine months ended September 30, 2018 and 2017 was \$211,780 and \$126,328, respectively. Rent expense is included in general and administrative expense on the condensed 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 months ended September 30, 2018 and 2017 was \$25,704, respectively, and \$77,111 for both the nine months ended September 30, 2018 and 2017, respectively and is included in other income on the condensed consolidated statements of operations.

Service Agreement

On August 1, 2018, the Company entered into a one-year letter agreement with Enventys Partners, LLC, a North Carolina limited liability company ("Enventys"), whereby Enventys agreed to provide services to the Company as an independent contractor in the areas of product development and crowdfunding campaign marketing. During the term of the Enventys Agreement, the Company shall pay Enventys a fixed fee of \$15,000 per month for product development assistance, including design research, mechanical engineering and quality control planning. Depending on the success of each campaign, the Company may also pay Enventys a commission of up to ten percent of the total funds raised in the applicable campaign. Louis Foreman, who has been nominated to be voted upon as a board member of the Company at the Company's next annual meeting, is also the Chief Executive Officer and the largest equity holder of Enventys.

Legal Contingencies

As of September 30, 2018, we were not a party to any material legal proceedings. However, the Company may be 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.

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

**Note 11 — Stockholders' Equity**

Common Stock

The Company issued 1,312,520 shares of common stock related to the IPO, at a public offering price of \$5.00 per share in August 2018. The Company received gross proceeds of \$6,562,600 and net proceeds of \$5,358,570 after deducting underwriter commissions and expenses of \$714,802, legal fees of \$157,358, escrow closing fees of \$4,000 and other direct offering expenses which together aggregate \$1,204,030.

Stock-Based Compensation

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

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table.

	<b>2018</b>
Weighted average fair value of option granted	\$ 1.82
Risk-free interest rate	2.2%
Expected term in years	2.5
Volatility	50.0%
Dividend rate	0.0%

The following table summarizes stock option award activity during 2018:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Balance, January 1, 2018	-	\$ -	-	-
Granted	290,000	5.55	4.5	-
Balance, September 30, 2018	290,000	\$ 5.55	4.5	561,300

The Company recorded stock-based compensation expense of \$260,826 for the fair value of the options for the three and nine months ended September 30, 2018. No compensation expense was recorded for the three and nine months ended September 30, 2017.

On February 28, 2018, the Company agreed to assume certain consulting agreements entered into by SRM LLC, which was the parent of SRM prior to its acquisition by the Company. Under these consulting agreements SRM LLC offered these consultants options to own stock if SRM LLC were ever sold for past considerations. As an accommodation to the Company, the principal stockholder of SRM satisfied these agreements on behalf of the Company, by transferring 344,250 of his shares to the consultants. In accordance with SEC Staff Accounting Bulletin (SAB) 79 amended by SAB 5T, "Accounting for Expenses or Liabilities Paid by Principal Stockholder," the Company recorded stock-based compensation expense of \$1,721,250 for the fair value of these shares for the nine months ended September 30, 2018.

The Company issued 61,900 shares of common stock to employees in connection with the IPO. The Company recorded stock-based compensation expense of \$309,500 for the fair value of the 61,900 shares of common stock issued to employees for services for the nine months ended September 30, 2018.

The Company issued 75,000 shares of common stock to consultants in connection with the services provided. The Company recorded stock-based compensation expense of \$375,000 for the fair value of the 75,000 shares of common stock issued to consultants for services for the nine months ended September 30, 2018.

Selling Agent Agreement

In connection with the IPO, the Company agreed to issue to the selling agent in the IPO, warrants to purchase a number of shares of the common stock equal to 5.0% of the total shares of common stock sold in any closing of the IPO, excluding shares purchased by investors sourced via alternative funding platforms (the "Selling Agent Warrants"). The Selling Agent Warrants are exercisable commencing on the qualification date of the IPO and have a term of 5 years. The Selling Agent Warrants are not redeemable by the Company. The exercise price for the Selling Agent Warrants is 20% greater than the IPO offering price, or \$6.00 per share. On August 16, 2018, the Company issued 65,626 of Selling Agent Warrants that are exercisable for 65,626 shares of the Company's common stock.

## Note 12 — Segment Reporting

The Company's principal operating segments coincide with the types of products to be sold. The products from which revenues are derived are consistent with the reporting structure of the Company's internal organization. The Company's two reportable segments for the three and nine months ended September 30, 2018 and 2017 were the consumer goods segment (formerly the SRM segment) and the packaging materials segment (formerly the Fergco segment). The Company incurs operating expenses related to the corporate level and these costs are not allocated to the Company's operating segments. CB does not have any reportable operations. The Company's chief operating decision-maker has been identified as the Company's Chairman and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon the Company's management organization structure as of September 30, 2018 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed. There are no inter-segment revenue transactions and, therefore, revenues are only to external customers.

Segment operating profit is determined based upon internal performance measures used by the chief operating decision-maker. The Company derives the segment results from its internal management reporting system. The accounting policies the Company uses to derive reportable segment results are the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including net revenues, gross profit and operating loss. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. The Company manages certain operating expenses separately at the corporate level and does not allocate such expenses to the segments. Segment income from operations excludes interest income/expense and other income or expenses and income taxes according to how a particular reportable segment's management is measured. Management does not consider impairment charges, and unallocated costs in measuring the performance of the reportable segments.

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

**Note 12 — Segment Reporting — (Continued)**

Segment information available with respect to these reportable business segments for the three and nine months ended September 30, 2018 and 2017 was as follows:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>				
Packaging materials	\$ 1,567,723	\$ 1,234,208	\$ 4,593,051	\$ 3,911,040
Consumer goods	3,372,465	1,940,514	8,165,664	7,660,428
<b>Total segment and consolidated revenues</b>	<b>\$ 4,940,188</b>	<b>\$ 3,174,722</b>	<b>\$ 12,758,715</b>	<b>\$ 11,571,468</b>
<b>Gross profit:</b>				
Packaging materials	\$ 417,627	\$ 487,227	\$ 1,278,349	\$ 1,192,668
Consumer goods	885,561	544,548	2,390,151	2,152,738
<b>Total segment and consolidated gross profit</b>	<b>\$ 1,303,188</b>	<b>\$ 1,031,775</b>	<b>\$ 3,668,500</b>	<b>\$ 3,345,406</b>
<b>Income (loss) from operations:</b>				
Packaging materials	\$ 78,369	\$ 202,699	\$ 219,627	\$ 136,961
Consumer goods	696,255	141,079	1,904,145	1,357,405
Corporate	(1,537,091)	(82,112)	(4,732,102)	(82,112)
<b>Total segment and consolidated (loss) income from operations</b>	<b>\$ (762,467)</b>	<b>\$ 261,666</b>	<b>\$ (2,608,330)</b>	<b>\$ 1,412,254</b>
<b>Depreciation and amortization:</b>				
Packaging materials	\$ 28,878	\$ 36,202	\$ 84,413	\$ 104,374
Consumer goods	11,863	13,854	35,591	48,616
<b>Total segment depreciation and amortization</b>	<b>\$ 40,741</b>	<b>\$ 50,056</b>	<b>\$ 120,004</b>	<b>\$ 152,990</b>
<b>September 30,      December 31,</b>				
<b>2018                      2017</b>				
<b>Segment total assets:</b>				
Packaging materials			\$ 2,435,580	\$ 1,853,273
Consumer goods			17,584,758	2,217,296
Corporate			1,804,820	258
<b>Total segment and consolidated assets</b>			<b>\$ 21,825,158</b>	<b>\$ 4,070,827</b>

**Note 13 — Subsequent Events**

Cloud B Transaction

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

The initial accounting for the acquisition, including the amounts of each major class of assets acquired and liabilities assumed has not been completed at this time and has not been disclosed in these condensed consolidated financial statements due to the timing of the closing of the transaction and the information is not readily available.

In connection with the transaction the Company will no longer present multiple segments and this will be the last presentation of the packaging materials and consumer goods segment as all entities will operate cross functionally as one team to bring products to market.

Operating Lease

On October 1, 2018, the Company entered into a lease for office space in Winter Park, Florida which expires on September 30, 2020. Monthly lease payments are approximately \$1,887 for a total of approximately \$45,288 for the total term of the lease.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

This Quarterly Report on Form 10-Q, including the following section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements expressing management's current expectations, goals, objectives and similar matters. The following discussion pertains to our historical results, on a consolidated basis. However, because we conduct all of our material business operations through our wholly-owned subsidiaries, SRM, Fergco, EN and CB, the discussion and analysis relates to activities primarily conducted at the subsidiary level. Historical results and trends that might appear in this Quarterly Report should not be interpreted as being indicative of future operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this Quarterly Report. The Company undertakes no obligation to revise the forward-looking statements in this report after the date of the filing. Unless otherwise specifically indicated, all dollar amounts in the tables in this section are in thousands of dollars, except per share data or when otherwise specifically noted.

### **Overview**

As used herein, the terms the "Company," "Edison Nation" "we," "us," "our" and similar refer to Edison Nation, Inc., a Nevada corporation formerly known as Xspand Products Lab, Inc. and Idea Lab Products, Inc., and/or its wholly-owned operating subsidiaries, and/or where applicable, its management.

Edison Nation, Inc. was incorporated on July 18, 2017 under the laws of the State of Nevada as Idea Lab X Products, Inc. On October 26, 2017, Idea Lab X Products, Inc. changed its name to Xspand Products Lab, Inc. and on September 12, 2018 changed its name again to Edison Nation, Inc.

As of September 30, 2018, Edison Nation had four wholly-owned subsidiaries: S.R.M. Entertainment Limited ("SRM"), Ferguson Containers, Inc. ("Fergco"), CBAV1, LLC ("CB") and Edison Nation Holdings, LLC. Edison Nation Holdings, LLC is the single member of Edison Nation, LLC, Everyday Edisons, LLC, and Edison Nation Products, LLC. Edison Nation, LLC is the single member of Safe TV Shop, LLC. SRM was incorporated in Hong Kong on January 14, 1981 and primarily designs, manufactures and sells a broad variety of innovative toy products directly to retailers or direct to consumers via ecommerce in North America, Asia and Europe. Fergco was incorporated on September 14, 1966 under the laws of the State of New Jersey. Fergco primarily designs, manufactures and sells packaging and packaging materials for industrial and pharmaceutical companies in North America. Edison Nation Holdings, LLC and all of its subsidiaries (collectively "EN") are North Carolina limited liability companies. EN generates revenues and related cash flows from the acquisition of intellectual property rights from private inventors and the commercialization of that intellectual property. In order to acquire intellectual property rights, EN operates a website where inventors submit their innovative product ideas. The intellectual property rights acquired through these various sources is then licensed to either manufacturers or retailers. In certain instances, the Company develops the intellectual property into innovative products and in other cases the intellectual property is licensed "as is". In certain other instances the Company develops the intellectual property into products for the Direct Response Television (DRTV) market. For these products, the Company develops and tests infomercials, and then, for those with positive test results, licenses the products to strategic partners in the DRTV industry. The inventors of the intellectual property are paid a percentage of the Company's revenue from its commercialization. This percentage varies with the Company's investment in the development of the intellectual property.

On September 30, 2017, SRM and Fergco were acquired by the Company in exchange for an aggregate of 3,000,000 shares of the Company common stock and notes payable aggregating \$2,996,500. This transaction between entities under common control resulted in a change in reporting entity and required retrospective combination of the entities for all periods presented, as if the combination had been in effect since the inception of common control. Accordingly, the condensed consolidated financial statements of the Company reflect the accounting of the combined acquired subsidiaries at historical carrying values, except that equity reflects the equity of the Company.

CB was formed on May 14, 2018 under laws of the State of Nevada. CB was formed for the purpose of purchasing a promissory note from a bank, at a discount from face value, of a company in financial difficulty. As such, CB does not currently have operations, only holds the foregoing note, and is correspondingly not included in either of the Company's reportable operating segments.

On September 4, 2018, Edison Nation Holdings, LLC and its subsidiaries were acquired by the Company for (i) \$950,000 and the assumption of the remaining balance of the senior convertible debt through the issuance to the holders of 4%, 5-year senior convertible notes (the "New Convertible Notes"), in the aggregate principal amount of the sum of \$1,406,352 plus accrued but unpaid interest arising on the senior convertible debt through the closing date, which as of the date of the Purchase Agreement would be convertible into approximately 281,270 shares of the Company's common stock, at the option of the holder of such New Convertible Notes (subject to certain adjustments as provided in the Purchase Agreement and the terms of the New Convertible Notes), (ii) the reservation of 990,000 shares of the Company's common stock that may be issued in exchange for the redemption of certain non-voting membership interests of EN that will be created specifically in connection with the transaction contemplated by the Purchase Agreement (which exchange obligations may be instead satisfied in cash instead of shares of common stock, in the Company's sole discretion), and (iii) the issuance of approximately 550,346 shares of the Company's common stock in satisfaction of the indebtedness represented by promissory notes payable by EN to Venture Six, LLC and Wesley Jones with a total principal balance of \$4,127,601.94 as of the date of the Purchase Agreement.

## 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 Transaction

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

### Operating Lease

On October 1, 2018, the Company entered into a lease for office space in Winter Park, Florida which expires on September 30, 2020. Monthly lease payments are approximately \$1,887 for a total of approximately \$45,288 for the total term of the lease.

### Non-Employee Director Compensation

On September 26, 2018, the Compensation Committee of the board of directors approved the terms of compensation to be paid to non-employee directors for fiscal year 2018. Compensation for non-employee directors includes an annual retainer of \$15,000 and an award of options to purchase 20,000 shares of the Company’s common stock. The restricted stock underlying such options will vest one year after the grant date. In addition, the chair of each of the board’s committees shall receive an annual committee meeting fee of \$5,000.

### Executive Compensation Agreements

On September 26, 2018, the Company entered into written employment agreements with Christopher B. Ferguson, its Chief Executive Officer, and Philip Anderson, its Chief Financial Officer and Corporate Secretary (each, an “Employment Agreement”). The Company has generally employed its executive officers “at will” and did not previously have written employment agreements with Messrs. Ferguson and Anderson.

Mr. Ferguson’s Employment Agreement provides for a term of 3 years terminable at will by either party, an annual base salary of \$175,000 per year and an annual discretionary bonus of up to 100% of his base salary based on performance criteria determined by the Company’s board of directors. Mr. Ferguson will also receive the normal benefits available to the Company’s executives. If Mr. Ferguson’s employment is terminated by the Company without Cause (as defined in Mr. Ferguson’s Employment Agreement) or by Mr. Ferguson as a result of a material breach by the Company, Mr. Ferguson will be entitled to payment of an amount equal to 6 months of his base salary and continuation of benefits for 6 month following the termination. Mr. Ferguson’s Employment Agreement also contains certain restrictive covenants, including indefinite confidentiality, a one year restriction from directly or indirectly owning or participating in a Competing Business (as defined in Mr. Ferguson’s Employment Agreement), and an 18-month restriction on solicitation of employees, customers, and suppliers of the Company.

Mr. Anderson’s Employment Agreement provides for a term of 3 years terminable at will by either party, an annual base salary of \$250,000 per year and an annual discretionary bonus of up to 100% of his base salary based on performance criteria determined by the Board. Mr. Anderson will also receive the normal benefits available to the Company’s executives. Under Mr. Anderson’s Employment Agreement and pursuant to the Company’s employee stock option program, the Company confirmed that it had previously granted Mr. Anderson options to purchase 210,000 shares of Common Stock at an exercise price equal to \$5.00 per share (the “Anderson Options”). The Anderson Options vest according to the vesting schedule set forth in the Non-Qualified Option Agreement described therein. If Mr. Anderson’s employment is terminated by the Company without Cause (as defined in Mr. Anderson’s Employment Agreement) or by Mr. Anderson as a result of a material breach by the Company, Mr. Anderson will be entitled to payment of an amount equal to 6 months of his base salary and continuation of benefits for 6 month following the termination. Mr. Anderson’s Employment Agreement also contains certain restrictive covenants, including indefinite confidentiality, a one year restriction from directly or indirectly owning or participating in a Competing Business (as defined in Mr. Anderson’s Employment Agreement), and an 18-month restriction on solicitation of employees, customers, and suppliers of the Company.

## Financial Overview

### Revenues

We have two reportable segments. Through our consumer products segment (formerly the SRM segment), we sell or license a broad variety of innovative products directly to retailers or direct to consumers via e-commerce in North America, Asia and Europe. Through our packaging materials segment (formerly the Fergco segment), we sell packaging and packaging materials principally to industrial and pharmaceutical companies in North America.

### 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.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("US GAAP") and our discussion and analysis of our financial condition and operating results requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Note 2, "Summary of Significant Accounting Policies," of the Notes to our condensed consolidated financial statements appearing elsewhere in this report describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

There have been no significant changes in our critical accounting policies during the three and nine months ended September 30, 2018 as compared to the critical accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. We believe these critical accounting policies involve the more significant judgments and estimates used in the preparation of our consolidated financial statements and are the most critical to aid you in fully understanding and evaluating our reported financial results. Management considers these policies critical because they are both important to the portrayal of our financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters.

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

We did not have and were not a party to, during the periods presented, any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Results of Operations**

#### *Three months ended September 30, 2018 versus three months ended September 30, 2017*

### Revenue

For the three months ended September 30, 2018 and 2017, total segment and consolidated revenues consisted of the following:

	<b>For the Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Revenues:		
Packaging materials	\$ 1,567,723	\$ 1,234,208
Consumer goods	3,293,977	1,940,514
Total segment and consolidated revenues	<u>\$ 4,861,700</u>	<u>\$ 3,174,722</u>

For the three months ended September 30, 2018, revenues from our packaging materials segment increased by \$333,515 or 27%, as compared to the three months ended September 30, 2017. The increase was primarily attributable to increased product demand from our existing customers that have experienced increased demand from their own customers.

For the three months ended September 30, 2018, revenues from our consumer goods segment increased by \$1,353,463 or 70%, as compared to the three months ended September 30, 2017. The increase was primarily attributable to the addition of new products and customers in the consumer products segment.

### Cost of Revenues

For the three months ended September 30, 2018 and 2017, total segment and consolidated cost of revenues consisted of the following:

	<b>For the Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cost of revenues:		
Packaging materials	\$ 1,150,096	\$ 746,981
Consumer goods	2,486,904	1,395,966
Total segment and consolidated cost of revenues	<u>\$ 3,637,000</u>	<u>\$ 2,142,947</u>

For the three months ended September 30, 2018, cost of revenues increased by \$1,494,053 or 70%, as compared to the three months ended September 30, 2017. The increase was primarily attributable to the increase in total segment and consolidated revenues.

### Gross Profit

Gross profit and gross margin by segment and totals are as follows:

	<b>For the Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Gross profit:		
Packaging materials	\$ 417,627	\$ 487,227
Consumer goods	807,073	544,548
Total segment and consolidated gross profit	<u>\$ 1,224,700</u>	<u>\$ 1,031,775</u>

For the three months ended September 30, 2018, gross profit for our packaging materials segment decreased by \$69,600, or 14%, as compared to the three months ended September 30, 2017. The decrease was primarily a result of unfavorable product mix. For the three months ended September 30, 2018, gross margin decreased to 26.6%, as compared to 39.5% for the three months ended September 30, 2017.

For the three months ended September 30, 2018, gross profit for our consumer goods segment increased by \$262,525, or 48%, as compared to the three months ended September 30, 2017. The increase was primarily a result of the increase in revenues offset by increased tariffs and lower margin product sales. For the three months ended September 30, 2018, gross margin increased to 24.5%, as compared to 28.1% for the three months ended September 30, 2017.

### Operating Expenses

Selling, general and administrative expenses were \$2,065,655 and \$770,109 for the three months ended September 30, 2018 and 2017, respectively, representing an increase of \$1,295,546, or 168.2%. The increase was primarily attributable to related to the issuance of 75,000 shares of common stock to consultants for services performed, 290,000 options granted to employees and other indirect costs incurred related to the IPO and increased salaries related to the hiring of The Company employees and executives during 2018. The Company expects operating expenses to continue to increase as a public company and due to the Company's expected future growth.

### Rental Income

Rental income was \$25,703 for both the three months ended September 30, 2018 and 2017.

### Nine months ended September 30, 2018 versus nine months ended September 30, 2017

#### Revenue

For the nine months ended September 30, 2018 and 2017, total segment and consolidated revenues consisted of the following:

	<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Revenues:		
Packaging materials	\$ 4,593,051	\$ 3,911,040

Consumer goods	8,087,176	7,660,428
Total segment and consolidated revenues	<u>\$ 12,680,227</u>	<u>\$ 11,571,468</u>

For the nine months ended September 30, 2018, revenues from our packaging materials segment increased by \$682,011 or 17%, as compared to the nine months ended September 30, 2017. The increase was primarily attributable to increased product demand from our existing customers that have experienced increased demand from their own customers.

For the nine months ended September 30, 2018, revenues from our consumer goods segment decreased by \$426,748 or 6%, as compared to the nine months ended September 30, 2017. The increase was primarily attributable to the addition of new products and customers in the consumer products segment.

### Cost of Revenues

For the nine months ended September 30, 2018, total segment and consolidated cost of revenues consisted of the following:

	<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cost of revenues:		
Packaging materials	\$ 3,314,702	\$ 2,718,372
Consumer goods	5,775,513	5,507,690
Total segment and consolidated cost of revenues	<u>\$ 9,090,215</u>	<u>\$ 8,226,062</u>

For the nine months ended September 30, 2018, cost of revenues increased by \$864,153 or 10.6%, as compared to the nine months ended September 30, 2017. The increase was primarily attributable to the increase in total segment and consolidated revenues.

### Gross Profit

Gross profit and gross margin by segment and totals are as follows:

	<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Gross profit:		
Packaging materials	\$ 1,278,349	\$ 1,192,668
Consumer goods	2,311,663	2,152,738
Total segment and consolidated gross profit	<u>\$ 3,590,012</u>	<u>\$ 3,345,406</u>

For the nine months ended September 30, 2018, gross profit for our packaging materials segment increased by \$85,681, or 7%, as compared to the nine months ended September 30, 2017. The increase was primarily a result of the increase in revenues. For the nine months ended September 30, 2018, gross margin decreased to 27.8%, as compared to 30.5% for the nine months ended September 30, 2017. The decrease is primarily a result of unfavorable product mix.

For the nine months ended September 30, 2018, gross profit for our consumer goods segment decreased by \$158,925, or 7%, as compared to the nine months ended September 30, 2017. These increases were primarily a result of the increase in revenues offset by increased tariffs and lower margin product sales. For the nine months ended September 30, 2018, gross margin decreased to 30.7%, as compared to 41.1% for the nine months ended September 30, 2017. The decrease is primarily a result of unfavorable product mix.

### Operating Expenses

Selling, general and administrative expenses were \$6,276,830 and \$1,933,152 for the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$4,343,678, or 224.7%. The increase was primarily attributable to stock-based compensation expense of \$1,721,250, related to the assumption of certain consulting agreements which were satisfied by the principal stockholder of SRM transferring 344,250 shares to the consultants, stock-based compensation expense of \$260,826 related to the issuance of 290,000 options granted to employees, other non-cash stock charges of \$309,500 and \$375,000 related to the issuance of 61,900 shares of common stock to employees and 75,000 shares of common stock to consultants for services performed, respectively, and other indirect costs incurred related to the IPO and increased salaries related to the hiring of The Company employees and executives during 2018. The Company expects operating expenses to continue to increase as a public company and due to the Company's expected future growth.

### Rental Income

Rental income was \$77,111 for both the nine months ended September 30, 2018 and 2017.

### Non-GAAP Measures

**EBITDA and Adjusted EBITDA** - The Company defines EBITDA as net income (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 nine months ended September 30, 2018 and 2017, EBITDA and Adjusted EBITDA consisted of the following:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net (loss) income	\$ (1,679,306)	\$ 315,168	\$ (3,983,272)	\$ 1,428,381
Interest expense, net	42,135	(1,228)	407,273	(3,671)
Income tax expense	167,813	(26,570)	312,186	64,655
Depreciation and amortization	40,742	50,056	120,003	152,990
<b>EBITDA</b>	<b>(1,428,616)</b>	<b>337,426</b>	<b>(3,143,810)</b>	<b>1,642,355</b>
Stock-based compensation	260,826	-	1,982,076	-
Other noncash stock-based charges	378,500	-	684,500	-
Change in fair value of put option contract	732,600	-	732,600	-
Restructuring and severance costs	9,000	-	27,000	-
Transaction and acquisition costs	84,980	-	239,682	-
Other non-recurring costs	-	-	42,686	-
<b>Adjusted EBITDA</b>	<b>\$ 37,290</b>	<b>\$ 337,426</b>	<b>\$ 564,734</b>	<b>\$ 1,642,355</b>

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

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

## Liquidity and Capital Resources

At September 30, 2018, we had total current assets of \$8,015,810 and current liabilities of \$2,544,363 resulting in working capital of \$5,471,447. At September 30, 2017, we had total assets of \$21,825,158 and total liabilities of \$13,588,098 resulting in stockholders' equity of \$8,237,060.

At September 30, 2018, we had \$4,305,882 of outstanding notes payable due to our related parties of which \$285,015 was the current portion. These notes arose as part of the consideration paid in our acquisition of SRM, Fergco and EN.

On May 2, 2018, we completed our IPO raising \$6,562,600 in gross proceeds. The Company received approximately \$5,358,570 in net proceeds after deducting discounts and commissions and other offering expenses. At September 30, 2018, we had a cash and cash equivalents balance of \$2,061,039. The Company believes that the funds available to it are adequate to meet its working capital needs, debt service and capital requirements for the next 12 months from the date of this filing.

Thereafter, we may need to raise further capital, through the sale of additional equity or debt securities, to support our future operations. 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.

During the nine months ended September 30, 2018 and 2017, our sources and uses of cash were as follows:

### Cash Flows from Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2018 was \$2,207,630 which included a net loss of \$3,983,272 which was offset by stock-based compensation of \$2,666,576 and \$2,010,482 of cash used by changes in operating assets and liabilities mostly related to our deposits with factories. Net cash provided by operating activities for the nine months ended September 30, 2017 was \$1,086,601, which included cash provided by net income of \$1,428,381, which was partially offset by \$499,545 of cash used in changes in operating assets and liabilities.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$502,504 and \$47,792 for the nine months ended September 30, 2018 and 2017, respectively. Cash used in investing activities was mostly attributable to acquisition of Edison Nation Holdings, LLC and its subsidiaries and the purchase of a loan held for investment.

### Cash Flows from Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2018 totaled \$5,213,906 which related mostly to cash received from net proceeds from the Company's initial public offering offset by borrowing and repayments under notes payable. Cash used in financing activities for the nine months ended September 30, 2017 was \$2,813,607 which related to the payment of dividends.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

## ITEM 4. CONTROLS AND PROCEDURES.

### *Evaluation of Disclosure Controls and Procedures*

We maintain "disclosure controls and procedures" as such term is defined in Rule 13a-15(e) under the Exchange Act. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information relating to our company, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

### *Changes in Internal Control Over Financial Reporting*

During the three months ended September 30, 2018, 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.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

We are not currently a party to any material legal proceedings. Although we are not currently a party any material legal proceedings, from time to time, we may be subject to various other legal proceedings and claims that are routine and incidental to our business. Although some of these proceedings may result in adverse decisions or settlements, management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows.

### ITEM 1A. RISK FACTORS.

Not applicable to smaller reporting companies.

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

On April 27, 2018, the SEC issued a notice of qualification of our offering statement on Form 1-A (File No. 024-10809), as amended, filed in connection with the IPO. Pursuant to such offering statement, we registered the offering and sale of up to 2,000,000 shares of our common stock by the Company at a price of \$5.00 per share. The IPO closed on April 30, 2018.

As a result of the IPO, on April 30, 2018, the Company received gross proceeds of \$6,562,600 and net proceeds of \$5,358,570 after deducting selling agent discounts and commissions of \$714,802, and other offering expenses of \$1,204,030. See Note 11, Stockholders' Equity, of the Notes to Condensed Consolidated Financial Statements, in Part I of this Quarterly Report on Form 10-Q for more information. No payments for the foregoing expenses were made by us to any of our officers, directors or persons owning ten percent or more of our Common Stock, or to the associates of any of the foregoing, or to our affiliates.

The net proceeds, after paying debt and accrued interest of \$700,000, have been invested in cash and cash equivalents. There has been no material change in the expected use of the net proceeds as described in the Company's offering statement on Form 1-A dated April 25, 2018.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

### ITEM 5. OTHER INFORMATION.

Not applicable.

### ITEM 6. EXHIBITS.

Exhibit Number	Description	Incorporated By Reference to			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
<a href="#">3.1</a>	<a href="#">Articles of Merger, filed with the Secretary of State of Nevada effective September 7, 2018</a>	<a href="#">8-K</a>	<a href="#">3.1</a>	<a href="#">September 12, 2018</a>	
<a href="#">3.2</a>	<a href="#">Second Amended and Restated Bylaws of Edison Nation, Inc.</a>	<a href="#">8-K</a>	<a href="#">3.2</a>	<a href="#">September 12, 2018</a>	
<a href="#">10.1</a>	<a href="#">Membership Interest Purchase Agreement dated June 29, 2018</a>	<a href="#">8-K</a>	<a href="#">10.1</a>	<a href="#">September 6, 2018</a>	
<a href="#">10.2</a>	<a href="#">Fifth Amended and Restated Operating Agreement of Edison Nation Holdings, LLC, dated September 4, 2018</a>	<a href="#">8-K</a>	<a href="#">10.2</a>	<a href="#">September 6, 2018</a>	
<a href="#">10.3</a>	<a href="#">Registration Rights Agreement dated September 4, 2018</a>	<a href="#">8-K</a>	<a href="#">10.3</a>	<a href="#">September 6, 2018</a>	
<a href="#">10.4</a>	<a href="#">Amended and Restated Edison Nation, Inc. Omnibus Incentive Plan</a>	<a href="#">8-K</a>	<a href="#">3.3</a>	<a href="#">September 12, 2018</a>	
<a href="#">10.5</a>	<a href="#">Employment Agreement, by and between Edison Nation, Inc. and Christopher Ferguson, dated September 26, 2018</a>	<a href="#">8-K</a>	<a href="#">10.1</a>	<a href="#">October 5, 2018</a>	
<a href="#">10.6</a>	<a href="#">Employment Agreement, by and between Edison Nation, Inc. and Phil Anderson, dated September 26, 2018</a>	<a href="#">8-K</a>	<a href="#">10.2</a>	<a href="#">October 5, 2018</a>	
<a href="#">31.1*</a>	<a href="#">Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				<input checked="" type="checkbox"/>
<a href="#">31.2*</a>	<a href="#">Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				<input checked="" type="checkbox"/>
<a href="#">32.1+</a>	<a href="#">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</a>				<input checked="" type="checkbox"/>

\* Filed herewith.

+ This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and it is not being filed for purposes of Section 18 of the Exchange Act and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**SIGNATURES**

Pursuant to the requirements 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: November 14, 2018

**EDISON NATION, INC.**

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

By: /s/ Philip Anderson  
Philip Anderson  
*Corporate Secretary and Chief Financial Officer*  
*(Principal Financial Officer and Principal Accounting Officer)*

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

I, Christopher B. Ferguson, certify that:

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

Date: November 14, 2018

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

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

I, Philip Anderson, certify that:

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

Date: November 14, 2018

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

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**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 September 30, 2018, 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: November 14, 2018

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

Date: November 14, 2018

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

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