

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 February 28, 2019  
or

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

For the transition period from to

Commission File Number: 000-55418



**KUSHCO HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**46-5268202**  
(I.R.S. Employer  
Identification No.)

**11958 Monarch Street, Garden Grove, CA 92841**  
(Address of Principal Executive Offices) (Zip Code)

**(714) 243-4311**  
(Registrant's telephone number, including area code)

N/A

Former name, former address, and former fiscal year, if changed since last report

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 88,017,716 shares outstanding as of April 11, 2019.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of management and information currently available to management. In some cases, you can identify forward-looking statements by words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “will,” “would,” or the negative of these words or other comparable terminology.

The identification in this report of factors that may affect our future performance and the accuracy of forward-looking statements is meant to be illustrative and by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Factors that could cause our actual results to differ materially from those expressed or implied by forward-looking statements include, but are not limited to:

- Trends affecting our financial condition, results of operations or future prospects;
- Our business and growth strategies;
- Our financing plans and forecasts;
- The factors that we expect to contribute to our success and our ability to be successful in the future;
- Our business model and strategy for realizing positive results as sales increase;
- Competition, including our ability to respond to such competition and its expectations regarding continued competition in the market in which we compete;
- Our ability to meet our projected operating expenditures and the costs associated with development of new projects;
- Our ability to pay dividends or to pay any specific rate of dividends, if declared;
- The impact of new accounting pronouncements on our financial statements;
- That our cash flows from operating activities will be sufficient to meet our operating expenditures;
- Our market risk exposure and efforts to minimize risk;
- Development opportunities and our ability to successfully take advantage of such opportunities;
- Regulations, including anticipated taxes, tax credits or tax refunds expected;
- The outcome of various tax audits and assessments, including appeals thereof, timing of resolution of such audits, our estimates as to the amount of taxes that will ultimately be owed and the impact of these audits on our financial statements;
- Our overall outlook including all statements under *Management’s Discussion and Analysis of Financial Condition and Results of Operations*;
- That estimates and assumptions made in the preparation of financial statements in conformity with US GAAP may differ from actual results; and
- Our expectations as to future financial performance, cash and expense levels and liquidity sources.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q, Part I, Item 1A. “Risk Factors” in Amendment No. 1 to our Annual Report on Form 10-K/A for the fiscal year ended August 31, 2018 filed with the SEC on April 11, 2019 and our other filings with the SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

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**KUSHCO HOLDINGS, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2019**  
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PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

**KUSHCO HOLDINGS, INC.**  
Condensed Consolidated Balance Sheets

	February 28, 2019	August 31, 2018
	(Unaudited)	(As Restated)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 17,941,908	\$ 13,466,807
Accounts receivable, net of allowance	11,315,237	8,600,959
Prepaid expenses and other current assets	14,215,998	13,623,285
Inventory, net	35,798,958	11,813,755
<b>Total current assets</b>	<b>79,272,101</b>	<b>47,504,806</b>
Goodwill	52,267,353	52,267,353
Intangible assets, net	3,576,889	4,487,415
Equity investment	1,198,768	-
Property and equipment, net	6,886,721	4,135,090
Other assets	1,093,229	250,296
<b>Total Assets</b>	<b>\$ 144,295,061</b>	<b>\$ 108,644,960</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,375,885	\$ 2,821,839
Accrued expenses and other current liabilities	6,111,739	3,008,385
Contingent consideration payable	-	5,488,410
Notes payable - current portion	116,892	61,685
Line of credit - current portion	1,496,534	918,124
<b>Total current liabilities</b>	<b>19,101,050</b>	<b>12,298,443</b>
Long-term liabilities:		
Notes payable	310,085	172,021
Warrant liability	13,375,000	14,430,000
Deferred rent	115,127	106,032
<b>Total liabilities</b>	<b>32,901,262</b>	<b>27,006,496</b>
<b>Commitments and contingencies (Note 16)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 265,000,000 shares authorized, 88,011,867 and 78,273,124 shares issued and outstanding, respectively	88,012	78,273
Additional paid-in capital	152,157,458	104,917,890
Accumulated deficit	(40,851,671)	(23,357,699)
<b>Total stockholders' equity</b>	<b>111,393,799</b>	<b>81,638,464</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 144,295,061</b>	<b>\$ 108,644,960</b>

See accompanying notes to the unaudited condensed consolidated financial statements

**KUSHCO HOLDINGS, INC.**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)

	For the Three Months Ended February 28,		For the Six Months Ended February 28,	
	2019	2018 (As Restated)	2019	2018 (As Restated)
Net revenue	\$ 35,176,332	\$ 10,361,400	\$ 60,495,973	\$ 19,208,492
Cost of goods sold	30,654,239	7,172,082	52,744,742	13,132,523
Gross profit	4,522,093	3,189,318	7,751,231	6,075,969
Operating expenses:				
Selling, general and administrative	18,765,667	4,071,566	31,313,065	6,806,774
Gain on disposition of assets	-	-	(1,254,414)	-
Change in fair value of contingent consideration	(5,602,336)	6,684,754	(5,208,071)	11,141,256
Total operating expenses	13,163,331	10,756,320	24,850,580	17,948,030
Loss from operations	(8,641,238)	(7,567,002)	(17,099,349)	(11,872,061)
Other income (expense):				
Change in fair value of warrant liability	1,271,000	-	1,055,000	-
Change in fair value of equity investment	(1,128,116)	-	(592,116)	-
Interest expense	(490,995)	(28,581)	(978,369)	(30,994)
Other income, net	74,451	-	120,862	-
Total other expense	(273,660)	(28,581)	(394,623)	(30,994)
Loss before income taxes	(8,914,898)	(7,595,583)	(17,493,972)	(11,903,055)
Income tax expense	-	11,763	-	66,178
<b>Net loss</b>	<b>\$ (8,914,898)</b>	<b>\$ (7,607,346)</b>	<b>\$ (17,493,972)</b>	<b>\$ (11,969,233)</b>
<b>Net loss per share:</b>				
Basic and diluted net loss per common share	\$ (0.10)	\$ (0.12)	\$ (0.22)	\$ (0.20)
Basic and diluted weighted average number of common shares outstanding	86,771,973	62,155,608	84,304,688	60,614,074

See accompanying notes to the unaudited condensed consolidated financial statements

**KUSHCO HOLDINGS, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(Unaudited)

	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares Issued	Amount			
<b>Balances at August 31, 2018 (Restated)</b>	<b>78,273,124</b>	<b>\$ 78,273</b>	<b>\$ 104,917,890</b>	<b>\$ (23,357,699)</b>	<b>\$ 81,638,464</b>
Stock option exercises	370,519	370	41,132	-	41,502
Stock-based compensation	129,560	130	5,475,071	-	5,475,201
Stock sold to investors, net of offering costs	9,076,664	9,077	41,583,434	-	41,592,511
Stock issued for acquisition of Hybrid	162,000	162	139,931	-	140,093
Net loss	-	-	-	(17,493,972)	(17,493,972)
<b>Balances at February 28, 2019</b>	<b>88,011,867</b>	<b>\$ 88,012</b>	<b>\$ 152,157,458</b>	<b>\$ (40,851,671)</b>	<b>\$ 111,393,799</b>

	Common Shares		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares Issued	Amount			
<b>Balances at August 31, 2017 (Restated)</b>	<b>58,607,066</b>	<b>\$ 58,607</b>	<b>\$ 29,676,883</b>	<b>\$ 979,067</b>	<b>\$ 30,714,557</b>
Stock sold to investors	4,626,296	4,626	11,412,379	-	11,417,005
Stock option exercises	234,128	234	196,873	-	197,107
Stock-based compensation	-	-	458,887	-	458,887
Stock issued for services	156,624	157	829,672	-	829,829
Net loss	-	-	-	(11,969,233)	(11,969,233)
<b>Balances at February 28, 2018 (Restated)</b>	<b>63,624,114</b>	<b>\$ 63,624</b>	<b>\$ 42,574,694</b>	<b>\$ (10,990,166)</b>	<b>\$ 31,648,152</b>

See accompanying notes to the condensed consolidated financial statements

**KUSHCO HOLDINGS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>For the Six Months Ended February 28,</b>	
	<b>2019</b>	<b>2018</b> <b>(As Restated)</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (17,493,972)	\$ (11,969,233)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,077,635	490,310
Gain on disposition of assets	(1,254,414)	-
Change in fair value of equity investment	592,116	-
Stock compensation expense	6,534,044	1,408,671
Change in fair value of warrant liability	(1,055,000)	-
Provision for deferred taxes	-	(270,359)
Change in contingent consideration	(5,208,071)	11,141,256
Changes in operating assets and liabilities:		
Accounts receivable	(2,714,278)	(2,200,893)
Prepays	(1,511,463)	(2,647,357)
Inventory	(24,099,353)	(3,505,198)
Prepaid consulting	(775,102)	-
Accounts payable	8,041,452	2,070,118
Accrued expenses and other current liabilities	3,112,449	49,866
<b>Net cash used in operating activities</b>	<b>(34,753,957)</b>	<b>(5,432,819)</b>
<b>Cash flows from investing activities</b>		
Acquisition of web domain	-	(9,321)
Security deposits	(67,831)	-
Purchase of property and equipment	(2,868,347)	(259,635)
<b>Net cash used in investing activities</b>	<b>(2,936,178)</b>	<b>(268,956)</b>
<b>Cash flows from financing activities</b>		
Repayment of capital leases	(47,186)	(8,508)
Repayment of note payable	-	(333,395)
Proceeds from stock option exercises	41,501	-
Proceeds from sale of stock, net of costs	41,592,511	11,614,112
Proceeds from line of credit	54,325,000	742,504
Payments on line of credit	(53,746,590)	-
Payments on contingent consideration	-	(170,000)
<b>Net cash provided by financing activities</b>	<b>42,165,236</b>	<b>11,844,713</b>
<b>Net increase in cash</b>	<b>4,475,101</b>	<b>6,142,938</b>
<b>Cash at beginning of period</b>	<b>13,466,807</b>	<b>916,984</b>
<b>Cash at end of period</b>	<b>\$ 17,941,908</b>	<b>\$ 7,059,922</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for:		
Interest	\$ 826,638	\$ 30,994
Income taxes	\$ -	\$ 66,178
<b>Non-cash investing and financing activities</b>		
Property and equipment included in accounts payable	\$ 232,256	\$ -
Capital leases	\$ 240,457	\$ -
Services prepaid for in common stock	\$ 697,202	\$ 102,800
Shares issued for accounts payable	\$ -	\$ 159,983
Equity investment	\$ 1,790,884	\$ -
Stock issue for acquisition of Hybrid	\$ 140,232	\$ -

See accompanying notes to the condensed consolidated financial statements

**KUSHCO HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

KushCo Holdings, Inc. ("the Company") was incorporated in the state of Nevada on February 26, 2014. The Company specializes in marketing and selling packaging products, vaporizers, hydrocarbon gases, solvents, accessories and branding solutions to customers operating in the regulated medical and recreational cannabis industries. The Company provides custom branding on packaging products, and its testing standards meet the requirements set by the Consumer Product Safety Commission. The Company's packaging products primarily consists of bottles, bags, tubes and containers. The Company maintains relationships with a broad range of manufacturers and also has sophisticated in-house labeling and customization capabilities. The Company sells a wide selection of vaporizer cartridges with a variety of core materials and heating technologies, as well as a wide selection of batteries to match the cartridges. The Company provides ultra-pure hydrocarbon gases, including isobutene, n-butane, propane, ethanol, pre-mixes, custom blends and other solvents, which are essential in the extraction process. The Company's wholly-owned subsidiary, The Hybrid Creative, LLC, is a full-service creative agency that serves both cannabis and non-cannabis clients across the U.S., Canada and Europe.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes include the activity of the Company and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. All intercompany balances and transactions have been eliminated. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The Company's operating results for the three and six months periods ended February 28, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ended August 31, 2019, or for any other period. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the fiscal year ended August 31, 2018, as restated. The condensed consolidated balance sheet as of August 31, 2018 included herein was derived from the audited financial statements as of that date, as restated, but does not include all disclosures as required by GAAP.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period.

Significant estimates relied upon in preparing these condensed consolidated financial statements include revenue recognition, accounts receivable reserves, inventory and related reserves, valuations and purchase price allocations related to business combinations, expected future cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of long-lived assets used to record impairment charges related to intangible assets and goodwill, amortization periods, accrued expenses, stock-based compensation, and recoverability of the Company's net deferred tax assets and any related valuation allowance.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if past experience or other assumptions do not turn out to be substantially accurate.

The Company is subject to a number of risks similar to those of other companies of similar size and having a focus of serving the cannabis industry, including, the development stage of certain products, competition, limited number of suppliers, integration of acquisitions, substantial indebtedness, government regulations, protection of proprietary rights, and dependence on key individuals.

Reclassification

Certain classifications have been made to the prior year condensed consolidated financial statements to conform to the current year presentation. The reclassification had no impact on previously reported net income (loss) or retained earnings (accumulated deficit).

**KUSHCO HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Accounts Receivable

Trade accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus trade receivables do not bear interest. Trade accounts receivables are periodically evaluated for collectability based on past credit history and their current financial condition. The Company's allowance for doubtful accounts was \$1,306,346 and \$999,752 as of February 28, 2019 and August 31, 2018, respectively.

Inventory

Inventories are stated at the lower of cost or net realizable value using the first-in first out (FIFO) method. The Company's inventory consists of finished goods of \$35,798,958 and \$11,813,755 as of February 28, 2019 and August 31, 2018, respectively. The Company also makes prepayments against the future delivery of inventory classified as prepaid inventory. The Company's prepaid inventory was \$11,667,382 and \$11,019,000 as of February 28, 2019 and August 31, 2018, respectively.

Net Loss Per Share

The Company computes earnings per share under Accounting Standards Codification subtopic 260-10, "Earnings per Share" ("ASC 260-10"). Basic net income (loss) per common share is computed by dividing net income or loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and common shares equivalents outstanding during the period using the treasury stock method.

Revenue Recognition

The Company markets and sells packaging products, vaporizers, hydrocarbon gases, solvents, accessories and branding solutions to customers operating in the regulated medical and recreational cannabis industries.

The Company expenses fulfillment costs as incurred because the amortization period would be less than one year in accordance with the ASC 606 practical expedient.

In accordance with ASC 606, the Company applies the following steps to recognize revenue for the sale of products that reflects the consideration to which the Company expects to be entitled to receive in exchange for the promised goods:

1. Identify the contract with a customer

A contract with a customer exists when the Company enters into an enforceable contract with a customer. The contract is based on either the acceptance of standard terms, or the execution of terms and conditions contracts. These contracts define each party's rights, payment terms and other contractual terms and conditions of the sale. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience and, in some circumstances, published credit and financial information pertaining to the customer.

2. Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract, whereby the transfer of the goods is separately identifiable from other promises in the contract. The Company has concluded the sale of finished goods and related shipping and handling are accounted for as a single performance obligation.

**KUSHCO HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

3. Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled to receive in exchange for transferring goods to the customer. The Company estimates the amount of potential refunds at each reporting period using a portfolio approach of historical data, adjusted for changes in expected customer experience, including seasonality and changes in economic factors.

Discounts provided to customers are accounted for as an element of the transaction price and as a reduction to revenue. Discounts were \$307,583 and \$63,551 for the three months ended February 28, 2019 and 2018, respectively, and \$619,875 and \$117,375 for the six months ended February 28, 2019 and 2018, respectively.

Revenue is presented net of taxes collected from customers and remitted to governmental authorities.

4. Allocate the transaction price to the performance obligations in the contract

The Company's products are sold at their standalone selling price.

5. Recognize revenue when the Company satisfies a performance obligation

Revenue is recognized when control of the finished goods is transferred to the customer. Control of the finished goods is transferred at a point in time, upon delivery to the customer. The period of time between the satisfaction of the performance obligation and when payment is due from the customer is not significant.

In the following table, product sales are disaggregated as follows for the three and six months ended February 28, 2018 and 2019:

	<u>Three Months Ended February 28,</u>		<u>Six Months Ended February 28,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Manufacturing	\$ 34,542,287	\$ 10,229,154	\$ 59,402,237	\$ 18,962,012
Services	634,045	132,246	1,093,736	246,480
<b>Total Net Revenue</b>	<u>\$ 35,176,332</u>	<u>\$ 10,361,400</u>	<u>\$ 60,495,973</u>	<u>\$ 19,208,492</u>

Advertising

The Company conducts advertising for the promotion of its products and services. In accordance with ASC subtopic 720-35-25 ("ASC 720"), advertising costs are charged to expense when incurred. Advertising costs were \$285,266 and \$75,984 for the three months ended February 28, 2019 and 2018, respectively. Advertising costs were \$777,849 and \$183,908 for the six months ended February 28, 2019 and 2018, respectively.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-13, "Fair Value Measurement (Topic 820), - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of the update. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

**KUSHCO HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASC 842”). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the consolidated balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASC 842, which will increase the total assets and the total liabilities that the Company will report relative to such amounts prior to adoption.

Other Accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the condensed consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

**NOTE 2 - RESTATEMENT**

In connection with the preparation of the Company’s condensed consolidated interim financial statements as of and for the fiscal quarter ended February 28, 2019, the Company identified inadvertent errors in the accounting for certain shared-settled contingent consideration obligations relating to the Company’s acquisition of CMP Wellness in May 2017, Summit Innovations in May 2018, and Hybrid Creative in July 2018. In connection with those acquisitions, contingent equity consideration relating to certain earn-out arrangements were accounted for as equity. Upon further evaluation, the Company determined that the share-settled contingent consideration should have been accounted for as liabilities with fair value changes recorded in the Company’s consolidated statements of operations.

Accordingly, on April 11, 2019, the Company filed Amendment No. 1 to its Annual Report on Form 10-K/A (the “Amended 10-K”), which restated the Company’s previously issued audited consolidated financial statements as of and for the fiscal years ended August 31, 2018 and 2017 and unaudited condensed consolidated interim financial statements as of and for the fiscal periods ended May 31, 2017, November 30, 2017, February 28, 2018, May 31, 2018 and November 30, 2018.

Tables summarizing the effects of the restatement adjustments to the Company’s condensed consolidated balance sheet as of August 31, 2018 and condensed consolidated statements of operations as of and for the three and six months ended February 28, 2018 were presented in Note 2, “Restatement” and Note 18, “Quarterly Information (Unaudited)” to the consolidated financial statements in the Amended 10-K.

**NOTE 3 - ACQUISITION OF SUMMIT INNOVATIONS, LLC**

On May 2, 2018, the Company completed its acquisition of Summit Innovations, LLC (“Summit”), a leading distributor of hydrocarbon gases to the legal cannabis industry. Pursuant to the terms of the merger agreement with Summit, Summit merged with and into KCH Energy, LLC, a wholly-owned subsidiary of the Company, with KCH Energy, LLC as the surviving entity.

The acquisition was accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Total fixed purchase consideration at closing consisted of 1,280,000 shares of common stock and cash consideration of \$905,231, net of cash received. Cash consideration of \$187,849 and approximately 640,000 shares of common stock were held back by the Company for a period of 15 months for potential post-closing working capital and/or indemnification claims relating to, among other things, breaches of representations, warranties and covenants contained in the merger agreement. The former members of Summit may become entitled to receive earn-out consideration of up to an additional 1,280,000 shares of the Company’s common stock, in the aggregate, based on the net revenue performance of the Summit business during a one-year period following the closing. As of February 28, 2019, we concluded that it did not appear likely that Summit would meet the minimum earnout target threshold. Accordingly, we estimated the fair value of the related contingent consideration to be zero.

**NOTE 4 - ACQUISITION OF THE HYBRID CREATIVE, LLC**

On July 11, 2018, the Company completed its acquisition of Zack Darling Creative Associates (“ZDCA”), and its wholly-owned subsidiary The Hybrid Creative, LLC (“Hybrid”), which together operated as a specialist design agency. Pursuant to the terms of the purchase agreement with the members of ZDCA, the Company purchased the entire issued member interest of ZDCA. Following the acquisition, ZDCA operates as a wholly-owned subsidiary of the Company, with Hybrid continuing to operate as wholly-owned subsidiary of ZDCA.

The acquisition was accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. The consideration paid to the members of Hybrid at the closing included cash consideration consisting of an aggregate of \$847,187 in cash, net of cash received, \$82,106 in cash held back and share consideration consisting of an aggregate of 360,000 shares of the Company’s common stock. The former members of ZDCA may become entitled to receive cash contingent consideration of up to \$485,000 and up to 212,858 common shares of equity consideration, based on the net revenue performance of Hybrid during the period September 1, 2018 through August 31, 2019. As of February 28, 2019, we concluded that it did not appear likely that ZDCA would meet the minimum earnout target threshold. Accordingly, we estimated the fair value of the related contingent consideration to be zero.

**KUSHCO HOLDINGS, INC.**  
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**NOTE 5 - CONCENTRATIONS OF RISK**

Supplier Concentrations

The Company purchases inventory from various suppliers and manufacturers. For the six months ended February 28, 2019, one vendor accounted for approximately 37% of total inventory purchases. For the six months ended February 28, 2018, two vendors, accounted for approximately 40% of total inventory purchases.

Customer Concentrations

During the six months ended February 28, 2019 and 2018, there was one customer which represented over 10% of the Company's revenues. As of February 28, 2019, there was one customer who represented 21% of accounts receivable. As of February 28, 2018, there were two customers who represented 22% of accounts receivable.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

The Company sub-leased its former corporate headquarters from 3 Kings Ventures, LLC, a related party owned by Dallas Imbimbo, Director, Nicholas Kovacevich, Chairman and Chief Executive Officer, and Jeffrey Meng, formerly a greater than 5% stockholder. During the six months ended February 28, 2019 and 2018, the Company made rent payments of \$0 and \$107,360, respectively, to these related parties.

**NOTE 7 - SALE OF RUB**

On September 21, 2018, Smoke Cartel, Inc. ("Smoke Cartel") and the Company entered into an agreement to sell a web domain and inventory related to the Company's Roll-uh-Bowl ("RUB") product line. The Company received 1,410,145 shares of Smoke Cartel common stock as part of the consideration for this transaction. The fair value of its equity investment as of September 21, 2018 was based upon the closing stock price of Smoke Cartel.

The following sets forth the calculation of the gain on disposition of assets upon completion of the sale:

Fair value of Smoke Cartel as of September 21, 2018	\$ 1,790,884
RUB web domain and inventory sold	(536,470)
Gain on disposition of assets	<u>\$ 1,254,414</u>

The sale of the RUB assets did not qualify as a discontinued operation as the sale is not a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

**NOTE 8 - PROPERTY AND EQUIPMENT**

The major classes of fixed assets consist of the following as of February 28, 2019 and August 31, 2018:

	<b>February 28, 2019</b>	<b>August 31, 2018</b>
Machinery and equipment	\$ 3,576,577	\$ 2,937,784
Vehicles	677,092	380,893
Office Equipment	655,107	385,627
Leasehold improvements	1,748,613	1,318,805
Construction in Progress	1,684,929	-
	<u>8,342,318</u>	<u>5,023,109</u>
Accumulated Depreciation	(1,455,597)	(888,019)
	<u>\$ 6,886,721</u>	<u>\$ 4,135,090</u>

Of the \$677,092 of vehicles as of February 28, 2019, \$240,457 consists of capital leased assets.

Depreciation and amortization expense was \$302,711 and \$58,767, for the three months ended February 28, 2019 and 2018, respectively. Of the \$302,711 of depreciation and amortization expense related to property and equipment for the three months ended February 28, 2019, \$193,700 is included in selling, general and administrative expense and \$109,011 is included in cost of goods sold in the condensed consolidated statements of operations. Of the \$58,767 of depreciation and amortization expense for the three months ended February 28, 2018, \$17,804 is included in selling, general and administrative expense and \$40,963 is included in cost of goods sold in the condensed consolidated statements of operations.

Depreciation and amortization expense was \$568,053 and \$114,239, for the six months ended February 28, 2019 and 2018, respectively. Of the \$568,053 of depreciation and amortization expense related to property and equipment for the six months ended February 28, 2019, \$356,134 is included in selling, general and administrative expense and \$211,919 is included in cost of goods sold in the condensed consolidated statements of operations. Of the \$114,239 of depreciation and amortization expense for the six months ended February 28, 2018, \$31,500 is included in selling, general and administrative expense and \$82,739 is included in cost of goods sold in the condensed consolidated statements of operations.

**KUSHCO HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 - INTANGIBLE ASSETS**

Intangible assets consist of the following as of February 28, 2019 and August 31, 2018:

Description	Weighted Average Estimated Useful Life	As of February 28, 2019			As of August 31, 2018		
		Gross Carrying Value	Accumulated Amortization	Net Amount	Gross Carrying Value	Accumulated Amortization	Net Amount
Domain name	5 years	\$ -	\$ -	\$ -	\$ 598,605	\$ (166,530)	\$ 432,075
Trade name	6 years	2,600,000	(794,444)	1,805,556	2,600,000	(577,778)	2,022,222
Non-compete agreement	4 years	2,370,000	(598,667)	1,771,333	2,370,000	(336,882)	2,033,118
		<u>\$ 4,970,000</u>	<u>\$ (1,393,111)</u>	<u>\$ 3,576,889</u>	<u>\$ 5,568,605</u>	<u>\$ (1,081,190)</u>	<u>\$ 4,487,415</u>

Amortization expense was \$109,011 and \$40,963 for the three months ended and \$509,582 and \$376,072, for the six months ended February 28, 2019 and 2018, respectively.

The following table shows the remaining estimated amortization expense associated with finite lived intangible assets as of February 28, 2019:

	Intangible Assets
2019	\$ 473,667
2020	947,333
2021	947,333
2022	919,667
2023	288,889
	<u>\$ 3,576,889</u>

**NOTE 10 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following as of February 28, 2019 and August 31, 2018:

	February 28, 2019	August 31, 2018
Customer deposits	\$ 1,563,938	\$ 768,908
Accrued compensation	2,162,620	992,747
Sales tax payable	923,686	432,491
Other accrued expenses	1,461,495	814,239
	<u>\$ 6,111,739</u>	<u>\$ 3,008,385</u>

**NOTE 11 - NOTES PAYABLE**

Automobile Contracts Payable

The Company has entered into purchase contracts for its vehicles. The loans and automobile contracts are secured by the vehicles and bear interest at an average interest rate of approximately 4% per annum. Future principal payments on these automobile contracts payable is summarized in the table below:

**KUSHCO HOLDINGS, INC.**  
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	<b>Principal Due</b>
2019	\$ 60,081
2020	116,297
2021	110,728
2022	112,767
2023	27,104
	\$ 426,977

**NOTE 12 - LOAN AGREEMENT**

On November 16, 2017, the Company and its wholly-owned subsidiary KIM International Corporation (“KIM”) as borrowers, and all of the Company’s other subsidiaries, as credit parties, entered into a Loan and Security Agreement (the “Loan Agreement”) with Gerber Finance Inc., as lender (“Gerber”), effective as of November 6, 2017. The Loan Agreement originally provided a secured revolving credit facility (the “Revolving Line”) in an aggregate principal amount of up to \$2.0 million at any time outstanding. Under the original terms of the Loan Agreement, the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed up to 85% of the Company’s eligible receivables minus reserves. Under the terms of the Loan Agreement, the Company may also request letters of credit from Gerber. The proceeds of the loans under the Loan Agreement will be used for working capital and general corporate purposes. The Revolving Line has a maturity date of November 6, 2019. Borrowings under the Revolving Line accrues interest at a rate based on the prime rate as customarily defined, plus a margin of 3.0%. On March 8, 2018, the Company and KIM entered into a first amendment to the Loan Agreement with Gerber. Pursuant to the first amendment, the aggregate principal amount of the Revolving Line at any time outstanding was increased to \$4.0 million and the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding could not exceed the lesser of (i) 40% of the value of certain inventory and (ii) 50% of certain accounts receivable.

On November 9, 2018, the Company and KIM entered into a second amendment to the Loan Agreement with Gerber. Pursuant to the second amendment, the aggregate principal amount of the Revolving Line at any time outstanding was increased to \$8.0 million. Additionally, subject to certain exceptions, the face amount of any outstanding letters of credit, at any time outstanding cannot exceed the lesser of (i) 25% of the value of certain inventory (increasing to 40% upon receipt of certain landlord waivers) and (ii) 50% of certain accounts receivable. In April 2019, the Company obtained a waiver of non-compliance with certain covenant violations associated with the restatements noted in Note 2.

**NOTE 13 - WARRANT LIABILITY**

In June of 2018, the Company issued warrants to purchase 3,750,000 shares of its common stock to investors in a registered direct offering. The warrants have a term of five years from the date of issuance. The exercise price of the warrants is protected in the event the Company issues securities with a variable conversion or exercise price during the three-year period following the warrants’ issuance. Pursuant to ASC 815, the fair value of the warrants of \$15,350,000 was recorded as a derivative liability on the issuance dates. The estimated fair values of the warrants were computed at issuance using an option pricing model.

The estimated fair value of the outstanding warrant liabilities was \$13,375,000 and \$14,430,000 as of February 28, 2019 and August 31, 2018, respectively.

Increases or decreases in the fair value of the derivative liability are included as a component of other income (expense) in the accompanying condensed consolidated statements of operations for the respective period. Accordingly, the changes to the derivative liability for warrants resulted in a decrease of \$1,271,000 and \$1,055,000 in warrant liability and a corresponding gain for the three and six months ended February 28, 2019.

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The estimated fair value of the warrants was computed as of February 28, 2019 and August 31, 2018 using the following assumptions:

	<b>February 28, 2019</b>	<b>August 31, 2018</b>
Stock price volatility	71%	81%
Risk-free interest rates	2.51%	2.74%
Annual dividend yield	-%	-%
Term (years)	4.3	4.0

In addition, as applicable management assessed the probabilities of future financing assumptions in the valuation models.

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value measurements are performed in accordance with the guidance provided by ASC Topic 820, “Fair Value Measurements and Disclosures.” ASC Topic 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied.

ASC Topic 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Assets and liabilities recorded at fair value in the financial statements are categorized based upon the hierarchy of levels of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supportable by little or no market activity and that are significant to the fair value of the asset or liability.

The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, capital lease obligations and deferred revenue approximate their fair values based on their short-term nature. The carrying amount of the Company’s long-term notes payable approximates its fair value based on interest rates available to the Company for similar debt instruments and similar remaining maturities.

The estimated fair value of the contingent consideration related to the Company’s business combinations is recorded using significant unobservable measures and other fair value inputs and is therefore classified as a Level 3 financial instrument.

The Company accounts for its investment in Smoke Cartel at fair value. On September 21, 2018, Smoke Cartel and the Company entered into an agreement to sell the RUB web domain and inventory related to this product line and in exchange, received 1,410,145 shares of Smoke Cartel common stock (see Note 7 above.) The fair value of its investment as of September 21, 2018 and February 28, 2019 was based upon the closing stock price of Smoke Cartel. The investment was classified as a Level 2 financial instrument.

In connection with the Company’s registered direct offering in June 2018, the Company issued warrants to purchase shares of its common stock and recorded embedded conversion features which are accounted for as derivative liabilities (see Note 13 above.) The estimated fair value of the derivatives is recorded using significant unobservable measures and other fair value inputs and is therefore classified as a Level 3 financial instrument.

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The following table details the fair value measurements within the fair value hierarchy of the Company's financial instruments, which includes the Level 2 assets and the Level 3 liabilities:

	<b>Fair Value at February 28, 2019</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Equity investment	\$ 1,198,768	\$ -	\$ 1,198,768	\$ -
<b>Liabilities:</b>				
Warrant liability	13,375,000	-	-	13,375,000
Total liabilities	<u>\$ 14,573,768</u>	<u>\$ -</u>	<u>\$ 1,198,768</u>	<u>\$ 13,375,000</u>

	<b>Fair Value at August 31, 2018</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Liabilities:</b>				
Contingent consideration payable	\$ 5,488,410	\$ -	\$ -	\$ 5,488,410
Warrant liability	14,430,000	-	-	14,430,000
Total liabilities	<u>\$ 19,918,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,918,410</u>

The following table reflects the activity for the Company's investment in Smoke Cartel measured at fair value using Level 2 inputs:

	<b>Investment in Smoke Cartel</b>
Balance at August 31, 2018	\$ -
Acquisition of equity investment	1,790,884
Adjustments to estimated fair value	(592,116)
Balance at February 28, 2019	<u>\$ 1,198,768</u>

The following table reflects the activity for the Company's warrant derivative liability measured at fair value using Level 3 inputs:

	<b>Warrant Liability</b>
Balance at August 31, 2018	\$ 14,430,000
Adjustments to estimated fair value	(1,055,000)
Balance at February 28, 2019	<u>\$ 13,375,000</u>

The following table reflects the activity for the Company's contingent consideration measured at fair value using Level 3 inputs:

	<b>Total</b>
As of August 31, 2018	\$ 5,488,409
Change in Fair Value	394,265
As of November 30, 2018	\$ 5,882,674
Change in Fair Value	(5,602,336)
Cash Payment	(140,106)
Settled in shares- Hybrid	(140,232)
As of February 28, 2019	<u>\$ -</u>
	<b>Total</b>
As of August 31, 2017	\$ 10,827,824
Change in Fair Value	4,456,502
Cash Payment	(85,000)
As of November 30, 2017	\$ 15,199,326
Change in Fair Value	6,684,754
Cash Payment	(85,000)
As of February 28, 2018	<u>\$ 21,799,080</u>

The fair value of contingent consideration is evaluated each reporting period using projected financial information, discount rates, and key inputs. Projected contingent payment amounts are discounted back to the current period using a discount rate. Financial information is based on the Company's most recent internal operational budgets and forecasts. Changes in projected financial information may result in higher fair value measurements. Increases in discount rates and the time to payment may result in lower fair value measurements. Increases (decreases) in any of those inputs in isolation may result in a significantly lower (higher) fair value measurement.

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**NOTE 15 - STOCKHOLDERS' EQUITY**

Preferred Stock

The authorized preferred stock is 10,000,000 shares with a par value of \$0.001. As of February 28, 2019, and August 31, 2018, the Company has no shares of preferred stock issued or outstanding.

Common Stock

The authorized common stock is 265,000,000 shares with a par value of \$0.001. As of February 28, 2019, and August 31, 2018, 88,011,867 and 78,273,124 shares were issued and outstanding, respectively.

On January 15, 2019, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain accredited investors (the "Purchasers") pursuant to which the Company sold an aggregate of 6,476,190 shares of its common stock, par value \$0.001 per share (the "Common Stock") and warrants to purchase 3,238,095 shares of Common Stock ("Warrants") (collectively, the "Securities"), in a registered direct offering (the "Offering"). The Securities were offered by the Company pursuant to its shelf registration statement on Form S-3 (File No. 333-221910) initially filed with the Securities and Exchange Commission (the "Commission") on December 5, 2017, as amended on January 25, 2018 and February 14, 2018, and declared effective on February 28, 2018, and an additional registration statement on Form S-3 filed pursuant to Rule 462(b) under the Securities Act, which became effective upon filing on January 16, 2019. Subject to certain ownership limitations, the Warrants are immediately exercisable at an exercise price equal to \$5.75 per share of Common Stock. The Warrants are exercisable for five years from the date of issuance.

The combined per share purchase price for a share of Common Stock a half of a Warrant was \$5.25. The Offering closed on January 18, 2019 with aggregated gross proceeds of approximately \$34.0 million. The aggregate net proceeds from the Offering, after deducting the placement agent fees and other estimated offering expenses, approximated \$31.2 million.

During the six months ended February 28, 2019, the Company sold 9,076,664 shares of its common stock to investors in exchange for aggregate net proceeds of approximately \$41.6 million.

During the six months ended February 28, 2018, the Company sold 4,626,296 shares of its common stock to investors in exchange for aggregate net proceeds of approximately \$11.6 million.

Share-based Compensation

The Company recorded stock compensation expense of \$6,534,044 and \$1,408,671 for the six months ended February 28, 2019 and 2018, respectively, in connection with the issuance of shares of common stock and options to purchase common stock.

During the six months ended February 28, 2018, the Company entered into a separation agreement dated as of January 12, 2018 with one employee. The Company issued 100,000 restricted common shares as part of the separation agreement to this employee, which valued at \$667,000 and was recorded as share-based compensation as of February 28, 2018.

Stock Options

The Company's 2016 Stock Incentive Plan (the "Plan") was adopted on February 9, 2016. The Plan, as amended, permits the grant of share options and shares to its employees and directors for up to 18,000,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three years of continuous service and have 10-year contractual terms.

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The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of our stock price over the expected option term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted during the six months ended February 28, 2019 and 2018:

	<b>February 28, 2019</b>	<b>February 28, 2018</b>
Expected term in years	3	1-4
Expected volatility	72% - 87%	60%
Risk-free interest rate	2.35% - 3.01%	1.14% - 2.37%
Expected dividend yield	-%	-%

The expected life is computed using the simplified method, which is the average of the vesting term and the contractual term. The expected volatility is based on management's analysis of historical volatility for comparable companies. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related option at the time of the grant. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

During the six months ended February 28, 2019 and 2018, the Company issued 5,019,000 and 1,517,500 stock options, respectively, pursuant to the Company's 2016 Stock Incentive Plan. A summary of the Company's stock option activity during the six month period ended February 28, 2019 is presented below:

	<b>Stock Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value</b>
Balance Outstanding, August 31, 2018	9,367,693	\$ 3.85	9.1	\$ 14,463,235
Granted	5,019,000	\$ 5.70	-	-
Exercised	(370,519)	\$ 0.85	-	-
Forfeited	(2,012,756)	\$ 4.03	-	-
Balance Outstanding, February 28, 2019	<u>12,003,418</u>	\$ 4.70	9.2	\$ 15,878,082
Exercisable, February 28, 2019	<u>2,934,149</u>	\$ 3.18	8.5	\$ 8,336,782

The weighted-average grant-date fair value of options granted during the six months ended February 28, 2019 and 2018, was \$3.07 and \$3.50, respectively.

During the six months ended February 28, 2019 and 2018, the intrinsic value of stock options exercised was \$2,230,360 and \$1,226,510, respectively.

As of February 28, 2019, there was \$21,822,071 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.3 years.

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**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

Other Commitments

In the ordinary course of business, the Company may enter into contractual purchase obligations and other agreements that are legally binding and specify certain minimum payment terms.

Litigation

The Company may be subject to legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Cautionary Statement Concerning Forward-Looking Statements**

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes included in this report. This report contains "forward-looking statements." The statements contained in this report that are not historic in nature, particularly those that utilize terminology such as "may," "will," "should," "expects," "anticipates," "estimates," "believes," or "plans" or comparable terminology are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements. The forward-looking events discussed in this report, the documents to which we refer you and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties, and assumptions about us. For these statements, we claim the protection of the "bespeaks caution" doctrine. All forward-looking statements in this document are based on information currently available to us as of the date of this report, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results, performance, or achievements expressed or implied by such forward-looking statements.

### **Overview**

We provide customizable packaging products, vaporizers, hydrocarbon gases, solvents, accessories and branding solutions primarily for the cannabis industry. Representative examples of our products include pop-top bottles, vaporizer cartridges and accessories, bags, tubes, and other containers. We sell our solutions predominantly to businesses operating in jurisdictions that have some form of cannabis legalization. These businesses include medical and recreational dispensaries, large and small-scale processors, and packaging re-distributors.

We believe that we have created one of the largest product libraries in the cannabis industry, allowing us to be a comprehensive solutions provider to our customers. Our extensive knowledge of the regulatory environment applicable to the cannabis industry allows us to quickly adapt to our customers' packaging requirements. We maintain the flexibility to enter the markets of decriminalized regions by establishing re-distributor partnerships or opening new facilities. We also have the flexibility to introduce new products and services to our vast customer network. We have no supplier "take or pay" arrangements. In addition to these factors, we believe that we offer competitive pricing, prompt deliveries, and excellent customer service. We expect continued growth as we take measures to expand into new markets, invest in our systems and personnel, forge strategic alliances and invest in our own molds and intellectual property.

### **Acquisitions**

On May 1, 2017 ("Merger Date"), we and our wholly-owned subsidiary, KBCMP, Inc. ("Merger Sub"), entered into an Agreement of Merger (the "Merger Agreement") with Lancer West Enterprises, Inc. and Walnut Ventures, pursuant to which each of Lancer West Enterprises, Inc. and Walnut Ventures were merged with and into Merger Sub, with Merger Sub as the surviving corporation, resulting in our indirect acquisition of CMP Wellness, LLC ("CMP"). Prior to the merger, CMP was owned 100% by Lancer West Enterprises, Inc. and Walnut Ventures. Membership interest in CMP was the sole asset of Lancer West Enterprises, Inc. and Walnut Ventures. As a result, CMP became our wholly-owned subsidiary. CMP is a distributor of vaporizers, cartridges and accessories.

The purchase price for CMP consisted of an aggregate of \$1,500,000 in cash, unsecured promissory notes in the aggregate principal amount of approximately \$770,820 having a one-year maturity, and an aggregate of 7,800,000 restricted shares of the Company's common stock. The purchase price is subject to customary post-closing adjustments with respect to confirmation of the levels of working capital and cash held by CMP as of the closing. During the one-year period following the closing, the former owners of CMP may become entitled to receive up to an additional approximately \$1,905,000 in cash, in the aggregate, and approximately 4,740,960 shares of our common stock, in the aggregate, based on the future performance of CMP.

On May 2, 2018, we completed our acquisition of Summit Innovations, LLC ("Summit"), a leading distributor of hydrocarbon gases to the legal cannabis industry. Pursuant to the terms of the merger agreement, Summit merged with and into our wholly-owned subsidiary, KCH Energy, LLC ("KCH"), with KCH as the surviving entity. The consideration paid to the members of Summit at the closing included cash consideration, consisting of an aggregate of \$905,231 in cash, net of cash received, and an aggregate of 1,280,000 shares of our common stock. Cash consideration of \$187,849 and approximately 640,000 shares of common stock from the share consideration were held back by us for a period of 15 months for potential post-closing working capital and/or indemnification claims relating to, among other things, breaches of representations, warranties and covenants contained in the merger agreement. The former members of Summit may become entitled to receive earn-out consideration of up to an additional 1,280,000 shares of common stock, in the aggregate, based on the net revenue performance of the Summit business during a one-year period following the closing. As of February 28, 2019, we concluded that it did not appear likely that Summit would meet the minimum earnout target threshold. Accordingly, we estimated the fair value of the related contingent consideration to be zero.

On July 11, 2018, the Company completed its acquisition of Zack Darling Creative Associates (“ZDCA”), and its wholly-owned subsidiary The Hybrid Creative, LLC (“Hybrid”), which together operated as a specialist design agency. Pursuant to the terms of the purchase agreement with the members of ZDCA, the Company purchased the entire issued member interest of ZDCA. Following the acquisition, ZDCA operates as a wholly-owned subsidiary of the Company, with Hybrid continuing to operate as wholly-owned subsidiary of ZDCA.

The fixed consideration paid to the members of Hybrid at the closing included cash consideration consisting of an aggregate of \$847,187 in cash, net of cash received, \$82,106 in cash held back and share consideration consisting of an aggregate of 360,000 shares of the Company’s common stock. The former members of ZDCA may become entitled to receive cash contingent consideration of up to \$485,000 and up to 212,858 common shares of equity consideration, based on the net revenue performance of Hybrid during the period September 1, 2018 through August 31, 2019. As of February 28, 2019, we concluded that it did not appear likely that ZDCA would meet the minimum earnout target threshold. Accordingly, we estimated the fair value of the related contingent consideration to be zero.

#### **Line of Credit**

On November 16, 2017, we and KIM International Corporation (“KIM”), our wholly-owned subsidiary, as borrowers, and all of our other subsidiaries, as credit parties, entered into a Loan and Security Agreement (the “Loan Agreement”) with Gerber Finance Inc., as lender (“Gerber”), effective as of November 6, 2017. The Loan Agreement originally provided a secured revolving credit facility (the “Revolving Line”) in an aggregate principal amount of up to \$2.0 million at any time outstanding. Under the terms of the original Loan Agreement, the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed up to 85% of our eligible receivables minus reserves. Under the terms of the Loan Agreement, we may also request letters of credit from Gerber. The proceeds of the loans under the Loan Agreement will be used for working capital and general corporate purposes. The Revolving Line has a maturity date of November 6, 2019. Borrowings under the Revolving Line accrues interest at a rate based on the prime rate as customarily defined, plus a margin of 3.0%. On March 8, 2018, we and KIM entered into a first amendment to the Loan Agreement with Gerber. Pursuant to the first amendment, the aggregate principal amount of the Revolving Line at any time outstanding was increased to \$4.0 million and the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding could not exceed the lesser of (i) 40% of the value of certain inventory and (ii) 50% of certain accounts receivable.

On November 9, 2018, we and KIM entered into a second amendment to the Loan Agreement with Gerber. Pursuant to the second amendment, the aggregate principal amount of the revolving credit facility at any time outstanding was increased to \$8.0 million. Additionally, subject to certain exceptions, the face amount of any outstanding letters of credit, at any time outstanding cannot exceed the lesser of (i) 25% of the value of certain inventory (increasing to 40% upon receipt of certain landlord waivers) and (ii) 50% of certain accounts receivable. In April 2019, the Company obtained a waiver of non-compliance with certain covenant violations associated with the restatements noted in Note 2.

#### **Results of Operations - Comparison for the three-month periods ended February 28, 2019 and 2018**

##### **Revenue**

For the three months ended February 28, 2019, our revenue increased to \$35,176,332, compared to \$10,361,400 for the three months ended February 28, 2018, which represents an increase of \$24,814,936 or 239%. The increase was primarily attributable to significant organic growth across all markets, including California, following the adoption of adult use cannabis sales on January 1, 2018. In addition, vaping product related sales remained strong as this sector of the cannabis industry continues to perform well. In addition, we achieved strong growth for custom branded products as customers seek differentiated brand building solutions in line with regulatory requirements. Non-organic revenue related to acquisitions represented 7% of total revenue during the three months ended February 28, 2019.

##### **Gross Profit**

Gross profit for the three months ended February 28, 2019 was \$4,522,093, or 13% of revenue, compared to \$3,189,318, or 31% of revenue, for the three months ended February 28, 2018. The decrease in gross profit percentage is primarily attributable to a shift in sales mix, increased freight-in charges, and product quality costs, along with the recent China trade tariffs that have been absorbed into costs of goods sold. Management views these tariffs as short-term and strategically decided not to pass on these tariff cost to drive market share.

##### **Operating Expenses**

Our operating expenses for the three months ended February 28, 2019 increased to \$13,163,331, or 37% of total revenue, from \$10,756,320, or 104% of total revenue, for the three months ended February 28, 2018. The increase in selling, general and administrative expenses is primarily due to the expansion of the business, primarily attributed to increased compensation cost, insurance, professional and facility expenses. For the three months ended February 28, 2019 and 2018, operating expenses included a gain of \$5,602,336 and a loss of \$6,684,754, respectively, related to the change in the fair value of contingent consideration. We will continue to make significant investments in infrastructure and supply chain to scale effectively.

### **Loss from Operations**

Loss from operations for the three months ended February 28, 2019 was \$8,641,238 compared to \$7,567,002 for the three months ended February 28, 2018. The increase is primarily attributable to investment in infrastructure and personnel to scale the expanding business, offset partially by the gain on contingent consideration.

### **Other Expense**

Other expense, during the three months ended February 28, 2019 was net expense of \$273,660, as compared to net expense of \$28,581 for the three months ended February 28, 2018. The increase is attributed to additional interest expense related to the increased credit line capacity and loss from the change in fair value of our equity investment, partially offset by the warrant liability gain.

### **Income Tax Expense**

The provision for income taxes was \$0 and \$11,763, for the three-month periods ended February 28, 2019 and 2018, respectively.

### **Net Loss**

Our net result for the three months ended February 28, 2019 was a net loss of \$8,914,898, or \$0.10 per share, compared to net loss of \$7,607,346 or \$0.12 per share, for the three months ended February 28, 2018.

### **Results of Operations - Comparison for the six-month periods ended February 28, 2019 and 2018**

#### **Revenue**

For the six months ended February 28, 2019, our revenue increased to \$60,495,973, compared to \$19,208,492 for the six months ended February 28, 2018, which represents an increase of \$41,287,481 or 215%. The increase was primarily attributable to significant organic growth across all markets, including California, following the adoption of adult use cannabis sales on January 1, 2018. In addition, vaping product related sales remained strong as this sector of the cannabis industry continues to perform well. In addition, we achieved strong growth for custom branded products as customers seek differentiated brand building solutions in line with regulatory requirements. Non-organic revenue related to acquisitions represented 7% of total revenue during the six months ended February 28, 2019.

#### **Gross Profit**

Gross profit for the six months ended February 28, 2019 was \$7,751,231, or 13% of revenue, compared to \$6,075,969, or 32% of revenue, for the six months ended February 28, 2018. The decrease in gross profit percentage is primarily attributable to a shift in sales mix, increased freight-in charges, and product quality costs, along with the recent China trade tariffs that have been absorbed into costs of goods sold. Management views these tariffs as short-term and strategically decided not to pass on these tariff cost to drive market share.

#### **Operating Expenses**

Our operating expenses for the six months ended February 28, 2019 increased to \$24,850,580, or 41% of total revenue, from \$17,948,030, or 93% of total revenue, for the six months ended February 28, 2018. The increase in selling, general and administrative expenses is due to the expansion of the business, primarily attributed to increased compensation cost, insurance, professional and facility expenses. For the six months ended February 28, 2019 and 2018, operating expenses included a gain of \$5,208,071 and a loss of \$11,141,256, respectively, related to the change in the fair value of contingent consideration. We will continue to make significant investments in infrastructure and supply chain to scale effectively.

### **Loss from Operations**

Loss from operations for the six months ended February 28, 2019 was \$17,099,349 compared to \$11,872,061 for the six months ended February 28, 2018. The increase is primarily attributable to investment in infrastructure and personnel to scale the expanding business, offset partially by the gain on contingent consideration.

## **Other Expense Net**

Other expense, during the six months ended February 28, 2019 was net expense of \$394,623, as compared to net expense of \$30,994 for the six months ended February 28, 2018. The increase is attributed to additional interest expense related to the increased credit line capacity and loss from the change in fair value of our equity investment, partially offset by the warrant liability gain.

## **Income Tax Expense**

The provision for income taxes was \$0 and \$66,178, for the six-month periods ended February 28, 2019 and 2018, respectively.

## **Net Loss**

Our net result for the six months ended February 28, 2019 was a net loss of \$17,493,972 or \$0.22 per share, compared to net loss of \$11,969,233 or \$0.20 per share, for the six months ended February 28, 2018.

## **Liquidity and Capital Resources**

As of February 28, 2019, we had cash of \$17,941,908 and a working capital surplus of \$60,171,051 compared to cash of \$13,466,807 and a working capital surplus of \$35,206,363 as of August 31, 2018. Working capital increased by \$24,964,688 or 71%. The increase in working capital is primarily due to an increase in net revenue for the six-month period ended February 28, 2019, as compared to the same period a year ago, and increased purchases of inventory to meet increased customer demand.

### *Cash Flows from Operating Activities*

For the six-month period ended February 28, 2019, net cash used in operating activities was \$34,753,957 compared to \$5,432,819 in net cash used in operating activities for the six-month period ended February 28, 2018. The change is primarily attributed to an increase in inventory, including related prepayments, and accounts receivable during the six-month period ended February 28, 2019.

### *Cash Flows from Investing Activities*

Net cash used in investing activities increased from \$268,956 for the six-month period ended February 28, 2018 to \$2,936,178 for the six-month period ended February 28, 2019, which can be primarily attributed to higher levels of equipment purchases during the current period.

### *Cash Flows from Financing Activities*

Net cash provided by financing activities increased from \$11,844,713 for the six-month period ended February 28, 2018 to \$42,165,236 for the six-month period ended February 28, 2019. The increase is primarily attributed to the sale of common stock to investors.

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, working capital balances, and capital structure to meet the short-term and long-term obligations of our business while seeking to maintain liquidity and financial flexibility. We have historically funded our operations primarily through the cash flows generated from our operations, borrowings available under our credit facility and from proceeds from the issuance of equity.

We believe that cash generated from our operations, along with the funds available through debt or equity financings, primarily for the purposes of expanding current operations, making capital acquisitions, or consummating strategic transactions are adequate to fund our financial obligations for at least the next twelve months.

### *Off-Balance Sheet Arrangements*

We do not currently have, and did not have during the periods presented, any off-balance sheet arrangements, as defined under SEC rules.

## **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of the condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable reserves, inventory and related reserves, valuations and purchase price allocations related to business combinations, expected cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of long-lived assets used to record impairment charges related to intangible assets and goodwill, amortization periods, accrued expenses, stock-based compensation, contingent liabilities, and recoverability of our net deferred tax assets and any related valuation allowance. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates, other than the adoption of ASC 606, Revenue Recognition, as described in Note 2 to our condensed consolidated financial statement.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents. We consider investments that, when purchased, have a remaining maturity of ninety (90) days or less to be cash equivalents. We do not believe that a notional or hypothetical 10% change in interest rate percentages would have a material impact on the fair value of our investment portfolio or our interest income.

### **Item 4. Controls and Procedures**

#### **Management's Evaluation of our Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we are responsible for conducting an evaluation of the effectiveness of the design and operation of our internal controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the fiscal quarter covered by this report. Disclosure controls and procedures means that the material information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to our company, including any consolidating subsidiaries, and was made known to us by others within those entities, particularly during the period when this report was being prepared. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were not effective as of February 28, 2019.

The material weaknesses that existed on November 30, 2018 are described in Part I, Item 4 - Controls and Procedures in Amendment No 1 to our Quarterly Report on Form 10-K for the interim period ended November 30, 2018, filed with the SEC on April 11, 2019. The material weaknesses in our internal controls have been primarily due to the lack of proper segregation of duties, the lack of sufficient levels of proper supervision and review and a material weakness in the accounting, presentation, and disclosure of share-settled contingent consideration.

We have taken steps to enhance our internal controls over financial reporting and plan to take additional steps to remediate the material weaknesses. Specifically:

- We appointed additional independent members with public company board experience to our board of directors, such that our board of directors is now composed of a majority of independent directors;
- On March 9, 2018, our board of directors formed an Audit Committee composed entirely of independent directors that, among other things, assists the board of directors in its oversight of the integrity of our financial statements and our financing reporting processes and systems of internal control;
- The Company announced the hiring of our new Chief Financial Officer, Christopher Tedford, with significant sales and distribution experience who will focus on the development of the finance and accounting function;
- We added staff to our finance team, and outsourced to third party the assessment of certain complex transactions under US GAAP;
- In January 2018, we hired a controller with public company experience; and
- We have adopted a Code of Business Conduct and Ethics and a whistleblower policy.
- In February 2019, we engaged a national accounting advisory firm to assist with the design and implementation of our internal control over financial reporting based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting on an ongoing basis and is committed to taking further action and implementing additional enhancements or improvements.

During the period covered by this Quarterly Report on Form 10-Q, we have not been able to remediate the material weaknesses described above. To remediate such weaknesses, we plan to appoint additional qualified personnel to address inadequate segregation of duties and implement modifications to our financial controls to address such inadequacies.

The remediation efforts set out herein will continue to be implemented in our 2019 fiscal year. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

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

There has been no change in our internal control over financial reporting identified in connection with our evaluation we conducted of the effectiveness of our internal control over financial reporting as of February 28, 2019, that occurred during our first fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

To the best of the Company's knowledge and belief, no material legal proceedings are currently pending or threatened.

### **Item 1A. Risk Factors.**

Item 1A of Part I of Amendment No.1 to our Annual Report on Form 10-K/A for the year ended August 31, 2018, filed with the SEC on April 11, 2019, contains risk factors identified by the Company. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business. To our knowledge and except to the extent additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors, there have been no material changes in the risk factors described in "Item 1A. Risk Factors" in Amendment No. 1 to our Annual Report on Form 10-K/A for the fiscal year ended August 31, 2018.

### **Item 2. Unregistered Sales of Equity Securities.**

During the six months ended February 28, 2019, we granted 129,560 unregistered shares of our common stock for services pursuant to contracts, with an aggregate fair market value of \$842,900.

During the six months ended February 28, 2019, we sold 9,076,664 shares of our common stock to investors in exchange for aggregate gross proceeds of approximately \$41.6 million.

These securities were issued without registration under the Securities Act in reliance on registration exemptions contained in Section 4(a)(2) of the Securities Act and Regulation D as transactions by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. The sales of these securities were made without general solicitation or advertising.

### **Item 3. Default Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

**Item 6. Exhibits**

The following exhibits are filed as part of this Current Report on Form 10-Q. Where such filing is made by incorporation by reference to a previously filed document, such document is identified.

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
<a href="#">4.1<sup>(1)</sup></a>	<a href="#">Form of Warrant dated January 18, 2019.</a>
<a href="#">10.1<sup>(1)</sup></a>	<a href="#">Form of Securities Purchase Agreement dated January 18, 2019.</a>
<a href="#">10.2<sup>(1)</sup></a>	<a href="#">Placement Agency Agreement, dated January 15, 2019, by and between KushCo Holdings, Inc. and Alliance Global Partners.</a>
<a href="#">10.3<sup>#(2)</sup></a>	<a href="#">Severance Agreement, dated February 22, 2019, by and between KushCo Holdings, Inc. and Jim McCormick.</a>
<a href="#">10.4<sup>#(3)</sup></a>	<a href="#">Offer Letter, dated February 27, 2019, by and between KushCo Holdings, Inc. and Rodrigo de Oliveira.</a>
<a href="#">10.5<sup>#(3)</sup></a>	<a href="#">Offer Letter, dated February 27, 2019, by and between KushCo Holdings, Inc. and Jason Vegotsky.</a>
<a href="#">10.6<sup>#(3)</sup></a>	<a href="#">Amendment to Offer Letter, dated February 27, 2019, by and between KushCo Holdings, Inc. and Christopher Tedford.</a>
<a href="#">10.7<sup>#*</sup></a>	<a href="#">KushCo Holdings, Inc. 2016 Stock Incentive Plan, as amended.</a>
<a href="#">31.1<sup>*</sup></a>	<a href="#">Certification of principal executive officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.2<sup>*</sup></a>	<a href="#">Certification of principal financial and accounting officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1<sup>**</sup></a>	<a href="#">Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.2<sup>**</sup></a>	<a href="#">Certification of principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

- (1) Previously filed as an exhibit to the Company's Current Report on Form 8-K (filed January 16, 2019) and incorporated by reference thereto.  
(2) Previously filed as an exhibit to the Company's Current Report on Form 8-K (filed February 28, 2019) and incorporated by reference thereto.  
(3) Previously filed as an exhibit to the Company's Current Report on Form 8-K (filed March 5, 2019) and incorporated by reference thereto.

\* Filed herewith.

\*\* This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

# Management contract or compensatory plan or arrangement.

**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.

**KUSHCO HOLDINGS, INC.**

Date: April 15, 2019

By: /s/ Nicholas Kovacevich  
Nicholas Kovacevich  
Chairman and Chief Executive Officer  
(Principal executive officer)

Date: April 15, 2019

By: /s/ Christopher Tedford  
Christopher Tedford  
Chief Financial Officer  
(Principal financial and accounting officer)

## KUSHCO HOLDINGS, INC. 2016 STOCK INCENTIVE PLAN

Adopted February 9, 2016, amended on May 8, 2018 and on February 21, 2019

THIS KUSHCO HOLDINGS, INC. 2016 STOCK INCENTIVE PLAN (the "Plan") is designed to retain directors, executives, officers, selected employees, and consultants and reward them for making contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the Plan thereby providing Participants with a proprietary interest in the growth and performance of the Company.

**1. Definitions**

(a) "**Board**" — The Board of Directors of the Company.

(b) "**Change in Control**" — Means, and shall be deemed to have occurred upon the occurrence of, any one of the following events:

1. The acquisition in one transaction by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "**Person**") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of shares or other securities (as defined in Section 3(a)(10) of the Exchange Act) representing 51% or more of outstanding Stock of the Company; provided, however, that a Change in Control as defined in this clause (1) shall not be deemed to occur in connection with any acquisition by the Company, an employee benefit plan of the Company or any Person who immediately prior to the effective date of this Plan is a holder of Stock (a "**Current Stockholder**") so long as such acquisition does not result in any Person other than the Company, such employee benefit plan or such Current Stockholder beneficially owning shares or securities representing 51% or more of the outstanding; or

2. Any election has occurred of persons as directors of the Company that causes two-thirds or more of the Board to consist of persons other than (i) persons who were members of the Board on the effective date of this Plan and (ii) persons who were nominated by the Board for election as members of the Board at a time when at least two-thirds of the Board consisted of persons who were members of the Board on the effective date of this Plan; provided, however, that any person nominated for election by the Board when at least two-thirds of the members of the Board are persons described in sub clause (i) or (ii) and persons who were themselves previously nominated in accordance with this clause (2) shall, for this purpose, be deemed to have been nominated by a Board composed of persons described in sub clause (ii); or

3. Approval by the stockholders of the Company of a reorganization, merger, consolidation or similar transaction (a "**Reorganization Transaction**"), in each case, unless, immediately following such Reorganization Transaction, more than 50% of, respectively, the outstanding shares of common stock (or similar equity security) of the corporation or other entity resulting from or surviving such Reorganization Transaction and the combined voting power of the securities of such corporation or other entity entitled to vote generally in the election of directors, is then beneficially owned, directly or indirectly, by the individuals and entities who were the respective beneficial owners of the outstanding Stock immediately prior to such Reorganization Transaction in substantially the same proportions as their ownership of the outstanding Stock immediately prior to such Reorganization Transaction; or

4. Approval by the stockholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company to a corporation or other entity, unless, with respect to such corporation or other entity, immediately following such sale or other disposition, more than 50% of, respectively, the outstanding shares of common stock (or similar equity security) of such corporation or other entity and the combined voting power of the securities of such corporation or other entity entitled to vote generally in the election of directors, is then beneficially owned, directly or indirectly, by the individuals and entities who were the respective beneficial owners of the outstanding Stock immediately prior to such sale or disposition in substantially the same proportions as their ownership of the outstanding Stock immediately prior to such sale or disposition.

(c) **“Code”** — The Internal Revenue Code of 1986, as amended from time to time.

(d) **“Committee”** — The Compensation Committee of the Company’s Board, or such other committee of the Board that is designated by the Board to administer the Plan.

(e) **“Company”** — KushCo Holdings, Inc. and its subsidiaries, including subsidiaries of subsidiaries.

(f) **“Exchange Act”** — The Securities Exchange Act of 1934, as amended from time to time.

(g) **“Fair Market Value”** — The fair market value of the Company’s issued and outstanding Stock based on the closing price on the day of any grant or award of stock under the Plan.

(h) **“Grant”** — The grant of any form of stock option, stock award, or stock purchase offer, whether granted singly, in combination, or in tandem, to a Participant pursuant to such terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

(i) **“Grant Agreement”** — An agreement between the Company and a Participant that sets forth the terms, conditions and limitations applicable to a Grant.

(j) **“Option”** — Either an Incentive Stock Option, in accordance with Section 422 of Code, or a Nonstatutory Option, to purchase the Company’s Stock that may be awarded to a Participant under the Plan. A Participant who receives an award of an Option shall be referred to as an **“Optionee”**.

(k) **“Participant”** — A director, officer, employee, or consultant of the Company to whom an Award has been made under the Plan.

(l) **“Restricted Stock Purchase Offer”** — A Grant of the right to purchase a specified number of shares of Stock pursuant to a written agreement issued under the Plan.

(m) **“Securities Act”** — The Securities Act of 1933, as amended from time to time.

(n) **“Stock”** — Authorized and issued or unissued shares of common stock of the Company.

(o) **“Stock Award”** — A Grant made under the Plan in stock or denominated in units of stock for which the Participant is not obligated to pay additional consideration.

**2. Administration.** The Plan shall be administered by the Board, provided however, that the Board may delegate such administration to the Committee. Subject to the provisions of the Plan, the Board and/or the Committee shall have authority to (a) grant, in its discretion, Incentive Stock Options in accordance with Section 422 of the Code, or Nonstatutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine the Fair Market Value of the Stock covered by any Grant; (c) determine which eligible persons shall receive Grants and the number of shares, restrictions, terms and conditions to be included in such Grants; (d) construe and interpret the Plan; (e) promulgate, amend and rescind rules and regulations relating to its administration, and correct defects, omissions and inconsistencies in the Plan or any Grant; (f) consistent with the Plan and with the consent of the Participant, as appropriate, amend any outstanding Grant or amend the exercise date or dates thereof; (g) determine the duration and purpose of leaves of absence which may be granted to Participants without constituting termination of their employment for the purpose of the Plan or any Grant; and (h) make all other determinations necessary or advisable for the Plan’s administration. The interpretation and construction by the Board of any provisions of the Plan or selection of Participants shall be conclusive and final. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant made thereunder.

### **3. Eligibility.**

(a) **General:** The persons who shall be eligible to receive Grants shall be directors, officers, employees or consultants to the Company. The term consultant shall mean any person, other than an employee, who is engaged by the Company to render services and is compensated for such services. An Optionee may hold more than one Option. Any issuance of a Grant to an officer or director of the Company subsequent to the first registration of any of the securities of the Company under the Exchange Act shall comply with the requirements of Rule 16b-3.

(b) **Incentive Stock Options:** Incentive Stock Options may only be issued to employees of the Company. Incentive Stock Options may be granted to officers or directors, provided they are also employees of the Company. Payment of a director’s fee shall not be sufficient to constitute employment by the Company.

(c) The Company shall not grant an Incentive Stock Option under the Plan to any employee if such Grant would result in such employee holding the right to exercise for the first time in any one calendar year, under all Incentive Stock Options granted under the Plan or any other plan maintained by the Company, with respect to shares of Stock having an aggregate fair market value, determined as of the date the Option is granted, in excess of \$100,000. Should it be determined that an Incentive Stock Option granted under the Plan exceeds such maximum for any reason other than a failure in good faith to value the Stock subject to such option, the excess portion of such option shall be considered a Nonstatutory Option. To the extent the employee holds two (2) or more such Options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such Option as Incentive Stock Options under the Federal tax laws shall be applied on the basis of the order in which such Options are granted. If, for any reason, an entire Option does not qualify as an Incentive Stock Option by reason of exceeding such maximum, such Option shall be considered a Nonstatutory Option.

(d) Nonstatutory Option: The provisions of the foregoing Section 3(b) shall not apply to any Option designated as a “**Nonstatutory Option**” or which sets forth the intention of the parties that the Option be a Nonstatutory Option.

(e) Stock Awards and Restricted Stock Purchase Offers: The provisions of this Section 3 shall not apply to any Stock Award or Restricted Stock Purchase Offer under the Plan.

#### 4. Stock

(a) Authorized Stock: Stock subject to Grants may be either unissued or reacquired Stock.

(b) Number of Shares: Subject to adjustment as provided in Section 5(i) of the Plan, the total number of shares of Stock which may be purchased or granted directly by Options, Stock Awards or Restricted Stock Purchase Offers, or purchased indirectly through exercise of Options granted under the Plan shall not exceed eighteen million (**18,000,000**). If any Grant shall for any reason terminate or expire, any shares allocated thereto but remaining unpurchased upon such expiration or termination shall again be available for Grants with respect thereto under the Plan as though no Grant had previously occurred with respect to such shares. Any shares of Stock issued pursuant to a Grant and repurchased pursuant to the terms thereof shall be available for future Grants as though not previously covered by a Grant.

(c) Reservation of Shares: The Company shall reserve and keep available at all times during the term of the Plan such number of shares as shall be sufficient to satisfy the requirements of the Plan. If, after reasonable efforts, which efforts shall not include the registration of the Plan or Grants under the Securities Act, the Company is unable to obtain authority from any applicable regulatory body, which authorization is deemed necessary by legal counsel for the Company for the lawful issuance of shares hereunder, the Company shall be relieved of any liability with respect to its failure to issue and sell the shares for which such requisite authority was so deemed necessary unless and until such authority is obtained.

(d) Application of Funds: The proceeds received by the Company from the sale of Stock pursuant to the exercise of Options or rights will be used for general corporate purposes.

(e) No Obligation to Exercise: The issuance of a Grant shall impose no obligation upon the Participant to exercise any rights under such Grant.

**5. Terms and Conditions of Options.** Options granted hereunder shall be evidenced by agreements between the Company and the respective Optionees, in such form and substance as the Board or Committee shall from time to time approve. Option agreements need not be identical, and in each case may include such provisions as the Board or Committee may determine, but all such agreements shall be subject to and limited by the following terms and conditions:

(a) Number of Shares: Each Option shall state the number of shares to which it pertains.

(b) Exercise Price: Each Incentive Stock Option shall state the exercise price, which shall be determined as follows:

(i) Any Incentive Stock Option granted to a person who at the time the Option is granted owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Company (“**Ten Percent Holder**”) shall have an exercise price of no less than 110% of the Fair Market Value of the Stock as of the date of grant; and

(ii) Incentive Stock Options granted to a person who at the time the Option is granted is not a Ten Percent Holder shall have an exercise price of no less than 100% of the Fair Market Value of the Stock as of the date of grant.

For the purposes of this Section 5(b), the Fair Market Value shall be as determined by the Board in good faith, which determination shall be conclusive and binding; provided however, that if there is an active public market for such Stock, the Fair Market Value per share shall be the closing price if such stock is listed on such public market on the date of grant of the Option, or if listed on a stock exchange, the closing price on such exchange on such date of grant.

The exercise price of each Nonstatutory Stock Option shall be determined at the discretion of the Board of Directors of the Corporation.

(c) Medium and Time of Payment: The exercise price shall become immediately due upon exercise of the Option and shall be paid in cash or check made payable to the Company. Should the Company's outstanding Stock be registered under Section 12(g) of the Exchange Act at the time the Option is exercised, then the exercise price may also be paid as follows:

(i) in shares of Stock held by the Optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes and valued at Fair Market Value on the exercise date, or

(ii) through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions (a) to a Company designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Company by reason of such purchase and (b) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

(iii) At the discretion of the Board, exercisable either at the time of Option grant or of Option exercise, the exercise price may also be paid (i) by Optionee's delivery of a promissory note in form and substance satisfactory to the Company and permissible under applicable securities rules and bearing interest at a rate determined by the Board in its sole discretion, but in no event less than the minimum rate of interest required to avoid the imputation of compensation income to the Optionee under the Federal tax laws, or (ii) in such other form of consideration permitted by the Nevada Revised Statutes as may be acceptable to the Board.

(d) Term and Exercise of Options: Any Option granted to an employee of the Company shall become exercisable over a period of no longer than ten (10) years. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such Option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. During the lifetime of an Optionee, the Option shall be exercisable only by the Optionee and shall not be assignable or transferable by the Optionee, and no other person shall acquire any rights therein. To the extent not exercised, installments (if more than one) shall accumulate, but shall be exercisable, in whole or in part, only during the period for exercise as stated in the Option agreement, whether or not other installments are then exercisable.

(e) Termination of Status as Employee, Consultant or Director: If Optionee's status as an employee shall terminate for any reason other than Optionee's disability or death, then Optionee (or if the Optionee shall die after such termination, but prior to exercise, Optionee's personal representative or the person entitled to succeed to the Option) shall have the right to exercise the portions of any of Optionee's Incentive Stock Options which were exercisable as of the date of such termination, in whole or in part, within 90 days after such termination (or, in the event of "termination for good cause" as that term is defined in Nevada case law related thereto, or by the terms of the Plan or the Option Agreement or an employment agreement, the Option shall automatically terminate as of the termination of employment as to all shares covered by the Option).

With respect to Nonstatutory Options granted to employees, directors or consultants, the Board may specify such period for exercise, not less than 90 days (except that in the case of "termination for cause" or removal of a director), the Option shall automatically terminate as of the termination of employment or services as to shares covered by the Option, following termination of employment or services as the Board deems reasonable and appropriate. The Option may be exercised only with respect to installments that the Optionee could have exercised at the date of termination of employment or services. Nothing contained herein or in any Option granted pursuant hereto shall be construed to affect or restrict in any way the right of the Company to terminate the employment or services of an Optionee with or without cause.

(f) Disability of Optionee: If an Optionee is disabled (within the meaning of Section 22(e)(3) of the Code) at the time of termination, the ninety (90) day period set forth in Section 5(c) shall be a period, as determined by the Board and set forth in the Option, of not less than six months nor more than one year after such termination.

(g) Death of Optionee: If an Optionee dies while employed by, engaged as a consultant to, or serving as a Director of the Company, the portion of such Optionee's Option which was exercisable at the date of death may be exercised, in whole or in part, by the estate of the decedent or by a person succeeding to the right to exercise such Option at any time within (i) a period, as determined by the Board and set forth in the Option, of not less than six (6) months nor more than one (1) year after Optionee's death, which period shall not be more, in the case of a Nonstatutory Option, than the period for exercise following termination of employment or services, or (ii) during the remaining term of the Option, whichever is the lesser. The Option may be so exercised only with respect to installments exercisable at the time of Optionee's death and not previously exercised by the Optionee.

(h) Nontransferability of Option: No Option shall be transferable by the Optionee, except by will or by the laws of descent and distribution.

(i) Recapitalization: Subject to any required action of shareholders, the number of shares of Stock covered by each outstanding Option, and the exercise price per share thereof set forth in each such Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock of the Company resulting from a stock split, stock dividend, combination, subdivision or reclassification of shares, or the payment of a stock dividend, or any other increase or decrease in the number of such shares affected without receipt of consideration by the Company; provided, however, the conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration" by the Company.

In the event of a proposed dissolution or liquidation of the Company, a merger or consolidation in which the Company is not the surviving entity, or a sale of all or substantially all of the assets or capital stock of the Company (collectively, a "Reorganization"), unless otherwise provided by the Board, this Option shall terminate immediately prior to such date as is determined by the Board, which date shall be no later than the consummation of such Reorganization. In such event, if the entity which shall be the surviving entity does not tender to Optionee an offer, for which it has no obligation to do so, to substitute for any unexercised Option a stock option or capital stock of such surviving entity, as applicable, which on an equitable basis shall provide the Optionee with substantially the same economic benefit as such unexercised Option, then the Board may grant to such Optionee, in its sole and absolute discretion and without obligation, the right for a period commencing thirty (30) days prior to and ending immediately prior to the date determined by the Board pursuant hereto for termination of the Option or during the remaining term of the Option, whichever is the lesser, to exercise any unexpired Option or Options without regard to the installment provisions of Paragraph 6(d) of the Plan; provided, that any such right granted shall be granted to all Optionees not receiving an offer to receive substitute options on a consistent basis, and provided further, that any such exercise shall be subject to the consummation of such Reorganization.

Subject to any required action of shareholders, if the Company shall be the surviving entity in any merger or consolidation, each outstanding Option thereafter shall pertain to and apply to the securities to which a holder of shares of Stock equal to the shares subject to the Option would have been entitled by reason of such merger or consolidation.

In the event of a change in the Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares without par value into the same number of shares with a par value, the shares resulting from any such change shall be deemed to be the Stock within the meaning of the Plan.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided in this Section 5(i), the Optionee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, and the number or price of shares of Stock subject to any Option shall not be affected by, and no adjustment shall be made by reason of, any dissolution, liquidation, merger, consolidation or sale of assets or capital stock, or any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class.

The Grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make any adjustments, reclassifications, reorganizations or changes in its capital or business structure or to merge, consolidate, dissolve, or liquidate or to sell or transfer all or any part of its business or assets.

(j) Rights as a Shareholder: An Optionee shall have no rights as a shareholder with respect to any shares covered by an Option until the effective date of the issuance of the shares following exercise of such Option by Optionee. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as expressly provided in Section 5(i) hereof.

(k) Modification, Acceleration, Extension, and Renewal of Options: Subject to the terms and conditions and within the limitations of the Plan, the Board may modify an Option, or, once an Option is exercisable, accelerate the rate at which it may be exercised, and may extend or renew outstanding Options granted under the Plan or accept the surrender of outstanding Options (to the extent not theretofore exercised) and authorize the granting of new Options in substitution for such Options, provided such action is permissible under Section 422 of the Code and applicable state securities laws. Notwithstanding the provisions of this Section 5(k), however, no modification of an Option shall, without the consent of the Optionee, alter to the Optionee's detriment or impair any rights or obligations under any Option theretofore granted under the Plan.

(l) Exercise Before Exercise Date: At the discretion of the Board, the Option may, but need not, include a provision whereby the Optionee may elect to exercise all or any portion of the Option prior to the stated exercise date of the Option or any installment thereof. Any shares so purchased prior to the stated exercise date shall be subject to repurchase by the Company upon termination of Optionee's employment as contemplated by Section 5(n) hereof prior to the exercise date stated in the Option and such other restrictions and conditions as the Board or Committee may deem advisable.

(m) Other Provisions: The Option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the Options, as the Board or the Committee shall deem advisable. Shares shall not be issued pursuant to the exercise of an Option, if the exercise of such Option or the issuance of shares thereunder would violate, in the opinion of legal counsel for the Company, the provisions of any applicable law or the rules or regulations of any applicable governmental or administrative agency or body, such as the Code, the Securities Act, the Exchange Act, applicable state securities laws, the corporate law of the state of Nevada, and the rules promulgated under the foregoing or the rules and regulations of any exchange upon which the shares of the Company are listed. Without limiting the generality of the foregoing, the exercise of each Option shall be subject to the condition that if at any time the Company shall determine that (i) the satisfaction of withholding tax or other similar liabilities, or (ii) the listing, registration or qualification of any shares covered by such exercise upon any securities exchange or under any state or federal law, or (iii) the consent or approval of any regulatory body, or (iv) the perfection of any exemption from any such withholding, listing, registration, qualification, consent or approval is necessary or desirable in connection with such exercise or the issuance of shares thereunder, then in any such event, such exercise shall not be effective unless such withholding, listing registration, qualification, consent, approval or exemption shall have been effected, obtained or perfected free of any conditions not acceptable to the Company.

(n) Repurchase Agreement: The Board may, in its discretion, require as a condition to the Grant of an Option hereunder, that an Optionee execute an agreement with the Company, in form and substance satisfactory to the Board in its discretion (“**Repurchase Agreement**”), (i) restricting the Optionee’s right to transfer shares purchased under such Option without first offering such shares to the Company or another shareholder of the Company upon the same terms and conditions as provided therein; and (ii) providing that upon termination of Optionee’s employment with the Company, for any reason, the Company (or another shareholder of the Company, as provided in the Repurchase Agreement) shall have the right at its discretion (or the discretion of such other shareholders) to purchase and/or redeem all such shares owned by the Optionee on the date of termination of his or her employment at a price equal to: (A) the fair value of such shares as of such date of termination; or (B) if such repurchase right lapses at 20% of the number of shares per year, the original purchase price of such shares, and upon terms of payment permissible under the applicable state securities laws; provided that in the case of Options or Stock Awards granted to officers, directors, consultants or affiliates of the Company, such repurchase provisions may be subject to additional or greater restrictions as determined by the Board or Committee.

**6. Stock Awards and Restricted Stock Purchase Offers.**

(a) Types of Grants.

(i) Stock Award. All or part of any Stock Award under the Plan may be subject to conditions established by the Board or the Committee, and set forth in the Stock Award Agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, increases in specified indices, attaining growth rates and other comparable measurements of Company performance. Such Awards may be based on Fair Market Value or other specified valuation.

(ii) Restricted Stock Purchase Offer. A Grant of a Restricted Stock Purchase Offer under the Plan shall be subject to such (i) vesting contingencies related to the Participant’s continued association with the Company for a specified time and (ii) other specified conditions as the Board or Committee shall determine, in their sole discretion, consistent with the provisions of the Plan.

(b) Conditions and Restrictions. Shares of Stock which Participants may receive as a Stock Award under a Stock Award Agreement or Restricted Stock Purchase Offer under a Restricted Stock Purchase Offer may include such restrictions as the Board or Committee, as applicable, shall determine, including restrictions on transfer, repurchase rights, right of first refusal, and forfeiture provisions. When transfer of Stock is so restricted or subject to forfeiture provisions it is referred to as “**Restricted Stock**.” Further, with Board or Committee approval, Stock Awards or Restricted Stock Purchase Offers may be deferred, either in the form of installments or a future lump sum distribution. The Board or Committee may permit selected Participants to elect to defer distributions of Stock Awards or Restricted Stock Purchase Offers in accordance with procedures established by the Board or Committee to assure that such deferrals comply with applicable requirements of the Code including, at the choice of Participants, the capability to make further deferrals for distribution after retirement. Any deferred distribution, whether elected by the Participant or specified by the Stock Award Agreement, Restricted Stock Purchase Offers or by the Board or Committee, may require the payment be forfeited in accordance with the provisions of Section 6(c). Dividends or dividend equivalent rights may be extended to and made part of any Stock Award or Restricted Stock Purchase Offers denominated in Stock or units of Stock, subject to such terms, conditions and restrictions as the Board or Committee may establish.

(c) Cancellation and Rescission of Grants. Unless the Stock Award Agreement or Restricted Stock Purchase Offer specifies otherwise, the Board or Committee, as applicable, may cancel any unexpired, unpaid, or deferred Grants at any time if the Participant is not in compliance with all other applicable provisions of the Stock Award Agreement or Restricted Stock Purchase Offer, the Plan and with the following conditions:

(i) A Participant shall not render services for any organization or engage directly or indirectly in any business which, in the judgment of the chief executive officer of the Company or other senior officer designated by the Board or Committee, is or becomes competitive with the Company, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with the interests of the Company. For Participants whose employment has terminated, the judgment of the chief executive officer shall be based on the Participant's position and responsibilities while employed by the Company, the Participant's post-employment responsibilities and position with the other organization or business, the extent of past, current and potential competition or conflict between the Company and the other organization or business, the effect on the Company's customers, suppliers and competitors and such other considerations as are deemed relevant given the applicable facts and circumstances. A Participant who has retired shall be free, however, to purchase as an investment or otherwise, stock or other securities of such organization or business so long as they are listed upon a recognized securities exchange or traded over-the-counter, and such investment does not represent a substantial investment to the Participant or a greater than ten percent (10%) equity interest in the organization or business.

(ii) A Participant shall not, without prior written authorization from the Company, disclose to anyone outside the Company, or use in other than the Company's business, any confidential information or material, relating to the business of the Company, acquired by the Participant either during or after employment with the Company.

(iii) A Participant shall disclose promptly and assign to the Company all right, title and interest in any invention or idea, patentable or not, made or conceived by the Participant during employment by the Company, relating in any manner to the actual or anticipated business, research or development work of the Company and shall do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in foreign countries.

(iv) Upon exercise, payment or delivery pursuant to a Grant, the Participant shall certify on a form acceptable to the Committee that he or she is in compliance with the terms and conditions of the Plan. Failure to comply with all of the provisions of this Section 6(c) prior to, or during the six months after, any exercise, payment or delivery pursuant to a Grant shall cause such exercise, payment or delivery to be rescinded. The Company shall notify the Participant in writing of any such rescission within two years after such exercise, payment or delivery. Within ten days after receiving such a notice from the Company, the Participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery pursuant to a Grant. Such payment shall be made either in cash or by returning to the Company the number of shares of Stock that the Participant received in connection with the rescinded exercise, payment or delivery.

(d) Nonassignability.

(i) Except pursuant to Section 6(e)(iii) and except as set forth in Section 6(d)(ii), no Grant or any other benefit under the Plan shall be assignable or transferable, or payable to or exercisable by, anyone other than the Participant to whom it was granted.

(ii) Where a Participant terminates employment and retains a Grant pursuant to Section 6(e)(ii) in order to assume a position with a governmental, charitable or educational institution, the Board or Committee, in its discretion and to the extent permitted by law, may authorize a third party (including but not limited to the trustee of a "blind" trust), acceptable to the applicable governmental or institutional authorities, the Participant and the Board or Committee, to act on behalf of the Participant with regard to such Awards.

(e) Termination of Employment. If the employment or service to the Company of a Participant terminates, other than pursuant to any of the following provisions under this Section 6(c), all unexercised, deferred and unpaid Stock Awards or Restricted Stock Purchase Offers shall be cancelled immediately, unless the Stock Award Agreement or Restricted Stock Purchase Offer provides otherwise:

(i) Retirement Under a Company Retirement Plan. When a Participant's employment terminates as a result of retirement in accordance with the terms of a Company retirement plan, the Board or Committee may permit Stock Awards or Restricted Stock Purchase Offers to continue in effect beyond the date of retirement in accordance with the applicable Grant Agreement and the exercisability and vesting of any such Grants may be accelerated.

(ii) Rights in the Best Interests of the Company. When a Participant resigns from the Company and, in the judgment of the Board or Committee, the acceleration and/or continuation of outstanding Stock Awards or Restricted Stock Purchase Offers would be in the best interests of the Company, the Board or Committee may (i) authorize, where appropriate, the acceleration and/or continuation of all or any part of Grants issued prior to such termination and (ii) permit the exercise, vesting and payment of such Grants for such period as may be set forth in the applicable Grant Agreement, subject to earlier cancellation pursuant to Section 9 or at such time as the Board or Committee shall deem the continuation of all or any part of the Participant's Grants are not in the Company's best interest.

(iii) Death or Disability of a Participant.

1. In the event of a Participant's death, the Participant's estate or beneficiaries shall have a period up to the expiration date specified in the Grant Agreement within which to receive or exercise any outstanding Grant held by the Participant under such terms as may be specified in the applicable Grant Agreement. Rights to any such outstanding Grants shall pass by will or the laws of descent and distribution in the following order: (a) to beneficiaries so designated by the Participant; if none, then (b) to a legal representative of the Participant; if none, then (c) to the persons entitled thereto as determined by a court of competent jurisdiction. Grants so passing shall be made at such times and in such manner as if the Participant were living.

2. In the event a Participant is deemed by the Board or Committee to be unable to perform his or her usual duties by reason of mental disorder or medical condition which does not result from facts which would be grounds for termination for cause, Grants and rights to any such Grants may be paid to or exercised by the Participant, if legally competent, or a committee or other legally designated guardian or representative if the Participant is legally incompetent by virtue of such disability.

3. After the death or disability of a Participant, the Board or Committee may in its sole discretion at any time (1) terminate restrictions in Grant Agreements; (2) accelerate any or all installments and rights; and (3) instruct the Company to pay the total of any accelerated payments in a lump sum to the Participant, the Participant's estate, beneficiaries or representative; notwithstanding that, in the absence of such termination of restrictions or acceleration of payments, any or all of the payments due under the Grant might ultimately have become payable to other beneficiaries.

4. In the event of uncertainty as to interpretation of or controversies concerning this Section 6, the determinations of the Board or Committee, as applicable, shall be binding and conclusive.

**7. Change in Control**. Unless otherwise provided in the applicable Grant Agreement, in the event of a Change in Control, 50% of the vesting restrictions applicable to each Participant's Grant(s) shall terminate fully and the Participant shall immediately have the right to the delivery of share certificates or exercise of Options, i.e. to the extent that a Participant's Option(s) are unvested, 50% of such unvested portion shall vest.

**8. Investment Intent**. All Grants under the Plan are intended to be exempt from registration under the Securities Act provided by Rule 701 thereunder. Unless and until the granting of Options or sale and issuance of Stock subject to the Plan are registered under the Securities Act or shall be exempt pursuant to the rules promulgated thereunder, each Grant under the Plan shall provide that the purchases or other acquisitions of Stock thereunder shall be for investment purposes and not with a view to, or for resale in connection with, any distribution thereof. Further, unless the issuance and sale of the Stock have been registered under the Securities Act, each Grant shall provide that no shares shall be purchased upon the exercise of the rights under such Grant unless and until (i) all then applicable requirements of state and federal laws and regulatory agencies shall have been fully complied with to the satisfaction of the Company and its counsel, and (ii) if requested to do so by the Company, the person exercising the rights under the Grant shall (A) give written assurances as to knowledge and experience of such person (or a representative employed by such person) in financial and business matters and the ability of such person (or representative) to evaluate the merits and risks of exercising the Option, and (B) execute and deliver to the Company a letter of investment intent and/or such other form related to applicable exemptions from registration, all in such form and substance as the Company may require. If shares are issued upon exercise of any rights under a Grant without registration under the Securities Act, subsequent registration of such shares shall relieve the purchaser thereof of any investment restrictions or representations made upon the exercise of such rights.

**9. Amendment, Modification, Suspension or Discontinuance of the Plan** The Board may, insofar as permitted by law, from time to time, with respect to any shares at the time not subject to outstanding Grants, suspend or terminate the Plan or revise or amend it in any respect whatsoever, except that without the approval of the shareholders of the Company, no such revision or amendment shall (i) increase the number of shares subject to the Plan, (ii) decrease the price at which Grants may be granted, (iii) materially increase the benefits to Participants, or (iv) change the class of persons eligible to receive Grants under the Plan; provided, however, no such action shall alter or impair the rights and obligations under any Option, or Stock Award, or Restricted Stock Purchase Offer outstanding as of the date thereof without the written consent of the Participant thereunder. No Grant may be issued while the Plan is suspended or after it is terminated, but the rights and obligations under any Grant issued while the Plan is in effect shall not be impaired by suspension or termination of the Plan.

In the event of any change in the outstanding Stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Board or the Committee may adjust proportionally (a) the number of shares of Stock (i) reserved under the Plan, (ii) available for Incentive Stock Options and Nonstatutory Options and (iii) covered by outstanding Stock Awards or Restricted Stock Purchase Offers; (b) the Stock prices related to outstanding Grants; and (c) the appropriate Fair Market Value and other price determinations for such Grants. In the event of any other change affecting the Stock or any distribution (other than normal cash dividends) to holders of Stock, such adjustments as may be deemed equitable by the Board or the Committee, including adjustments to avoid fractional shares, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board or the Committee shall be authorized to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, and other Grants by means of substitution of new Grant Agreements for previously issued Grants or an assumption of previously issued Grants.

**10. Tax Withholding.** The Company shall have the right to deduct applicable taxes from any Grant payment and withhold, at the time of delivery or exercise of Options, Stock Awards or Restricted Stock Purchase Offers or vesting of shares under such Grants, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes. If Stock is used to satisfy tax withholding, such stock shall be valued based on the Fair Market Value when the tax withholding is required to be made. Each Participant understands that such Participant (and not the Company) shall be responsible for the Participant's own tax liability that may arise as a result of an award or grant of options or Shares. Participant represents that Participant has consulted any tax consultants Participant deems advisable in connection with the receipt of the options or Shares and that Participant is not relying on the Company or the Company's counsel for any tax advice. The Company intends to report the value of the options or Shares received, if applicable, to appropriate tax authorities. The Company has the authority to require Participant to remit to the Company an amount sufficient to satisfy all federal, state, and local taxes required by law to be withheld with respect to any taxable event arising as a result of the receipt of the Shares.

**11. Availability of Information.** During the term of the Plan and any additional period during which a Grant granted pursuant to the Plan shall be exercisable, the Company shall make available, not later than one hundred and twenty (120) days following the close of each of its fiscal years, such financial and other information regarding the Company as is required by the bylaws of the Company and applicable law to be furnished in an annual report to the shareholders of the Company.

**12. Notice.** Any written notice to the Company required by any of the provisions of the Plan shall be addressed to the chief financial officer or to the chief executive officer of the Company, and shall become effective when it is received by the office of the chief financial officer or the chief executive officer.

**13. Indemnification of Board.** In addition to such other rights or indemnifications as they may have as directors or otherwise, and to the extent allowed by applicable law, the members of the Board and the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any claim, action, suit or proceeding, or in connection with any appeal thereof, to which they or any of them may be a party by reason of any action taken, or failure to act, under or in connection with the Plan or any Grant granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such claim, action, suit or proceeding, except in any case in relation to matters as to which it shall be adjudged in such claim, action, suit or proceeding that such Board or Committee member is liable for negligence or misconduct in the performance of his or her duties; provided that within sixty (60) days after institution of any such action, suit or Board proceeding the member involved shall offer the Company, in writing, the opportunity, at its own expense, to handle and defend the same.

**14. Governing Law.** The Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the law of the State of California and construed accordingly.

**15. Termination Dates.** The Plan shall terminate ten years following the initial adoption of the Plan by the Board of Directors, subject to earlier termination by the Board pursuant to Section 9.

The foregoing 2016 Stock Incentive Plan was duly adopted and approved by the Board of Directors as of February 9, 2016, the first amendment thereto was duly adopted and approved by the Board of Directors as of March 9, 2018 and the second amendment thereto was duly adopted and approved by the Board of Directors as of December 20, 2018.

**Certification**

I, Nicholas Kovacevich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of KushCo Holdings, 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 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 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: April 15, 2019

/s/ Nicholas Kovacevich

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Nicholas Kovacevich  
Chairman and Chief Executive Officer  
(principal executive officer)

**Certification**

I, Christopher Tedford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of KushCo Holdings, 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 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 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: April 15, 2019

/s/ Christopher Tedford

Christopher Tedford

Chief Financial Officer

(principal accounting and financial officer)

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**CERTIFICATION OF PERIODIC FINANCIAL REPORT  
PURSUANT TO 18 U.S.C. SECTION 1350**

The undersigned officer of KushCo Holdings, Inc. (the "Company") hereby certifies to his knowledge that the Company's Quarterly Report on Form 10-Q for the three months ended February 28, 2019 (the "Report") to which this certification is being furnished as an exhibit, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: April 15, 2019

/s/ Nicholas Kovacevich

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Nicholas Kovacevich  
Chairman and Chief Executive Officer  
(principal executive officer)

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**CERTIFICATION OF PERIODIC FINANCIAL REPORT  
PURSUANT TO 18 U.S.C. SECTION 1350**

The undersigned officer of KushCo Holdings, Inc. (the "Company") hereby certifies to his knowledge that the Company's Quarterly Report on Form 10-Q for the three months ended February 28, 2019 (the "Report") to which this certification is being furnished as an exhibit, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: April 15, 2019

/s/ Christopher Tedford

Christopher Tedford

Chief Financial Officer

(principal financial and accounting officer)

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