

Section 1: 10-Q

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____

Commission file number 001-37564

BOXLIGHT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

8211

(Primary Standard Industrial
Classification Code Number)

46-4116523

(I.R.S. Employer
Identification Number)

1045 Progress Circle
Lawrenceville, Georgia 30043
Phone: (678) 367-0809

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BOXL	The Nasdaq Stock Market LLC

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 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 to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [] No [X]

The number of shares outstanding of the registrant's common stock on November 11, 2019 was 11,023,870.

BOXLIGHT CORPORATION

TABLE OF CONTENTS

	<u>Page No.</u>
<u>PART I. Financial Information</u>	
Item 1. <u>Unaudited Consolidated Condensed Financial Statements</u>	F-1
<u>Unaudited Consolidated Condensed Balance Sheets as of September 30, 2019 and December 31, 2018</u>	F-1
<u>Unaudited Consolidated Condensed Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2019 and 2018</u>	F-2
<u>Unaudited Consolidated Condensed Statements of Changes in Stockholders Equity for the Three and Nine Months Ended September 30, 2019 and 2018</u>	F-3
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018</u>	F-4
<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	F-5
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	3
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	9
Item 4. <u>Controls and Procedures</u>	9
<u>PART II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	10
Item 1A. <u>Risk Factors</u>	10
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	10
Item 3. <u>Defaults Upon Senior Securities</u>	10
Item 4. <u>Mine Safety Disclosures</u>	10
Item 5. <u>Other Information</u>	10
Item 6. <u>Exhibits</u>	11
<u>Signatures</u>	12

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Boxlight Corporation
Consolidated Condensed Balance Sheets
As of September 30, 2019 and December 31, 2018
(Unaudited)

ASSETS	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current asset:		
Cash and cash equivalents	\$ 806,245	\$ 901,459
Accounts receivable – trade, net of allowances	8,415,106	3,634,726
Inventories, net of reserve	3,418,460	4,214,316
Prepaid expenses and other current assets	1,581,636	1,214,157
Total current assets	<u>14,221,447</u>	<u>9,964,658</u>
Property and equipment, net of accumulated depreciation	209,520	226,409
Intangible assets, net of accumulated amortization	5,776,915	6,352,273
Goodwill	4,723,549	4,723,549
Other assets	302	298
Total assets	<u>\$ 24,931,733</u>	<u>\$ 21,267,187</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,683,050	\$ 1,883,626
Accounts payable and accrued expenses – related parties	5,110,061	6,009,112
Warranty reserve	779,583	580,236
Short-term debt	6,883,522	2,306,227
Short-term debt – related party	357,668	377,333
Current portion of earn-out payable – related party	288,652	136,667
Deferred revenues – short-term	311,184	938,050
Derivative liabilities	896,095	326,452
Other short-term liabilities	77,896	5,128
Total current liabilities	<u>19,387,711</u>	<u>12,562,831</u>
Deferred revenues – long-term	97,481	134,964
Earn-out payable – related party	98,778	273,333
Long-term debt – related party	162,895	328,000
Long-term debt	1,416,688	-
Total liabilities	<u>21,163,553</u>	<u>13,299,128</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 50,000,000 shares authorized; 167,972 and 250,000 shares issued and outstanding	17	25
Common stock, \$0.0001 par value, 200,000,000 shares authorized; 10,849,966 and 10,176,433 Class A shares issued and outstanding, respectively	1,085	1,018
Additional paid-in capital	29,250,838	27,279,931
Subscriptions receivable	(200)	(225)
Accumulated deficit	(25,350,392)	(19,206,271)
Other comprehensive loss	(133,168)	(106,419)
Total stockholders' equity	<u>3,768,180</u>	<u>7,968,059</u>
Total liabilities and stockholders' equity	<u>\$ 24,931,733</u>	<u>\$ 21,267,187</u>

See accompanying notes to the financial statements.

Boxlight Corporation
Consolidated Condensed Statements of Operations and Comprehensive Loss
For the Three and Nine Months Ended September 30, 2019 and 2018
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues, net	\$ 11,602,722	\$ 10,195,968	\$ 27,711,452	\$ 25,856,310
Cost of revenues	8,163,811	7,763,617	19,439,775	20,217,670
Gross profit	<u>3,438,911</u>	<u>2,432,351</u>	<u>8,271,677</u>	<u>5,638,640</u>
Operating expense:				
General and administrative expenses	4,258,166	4,262,707	11,912,432	11,183,305
Research and development	351,104	98,952	911,682	368,555
Total operating expense	<u>4,609,270</u>	<u>4,361,659</u>	<u>12,824,114</u>	<u>11,551,860</u>
Loss from operations	<u>(1,170,359)</u>	<u>(1,929,308)</u>	<u>(4,552,437)</u>	<u>(5,913,220)</u>
Other income (expense):				
Interest expense, net	(517,391)	(188,457)	(1,277,016)	(542,656)
Other income, net	21,077	38,796	65,956	42,067
Changes in fair value of derivative liabilities	1,372,177	821,528	(527,058)	(334,990)
Gain from settlements of liabilities	-	36,080	146,434	165,378
Total other income (expense)	<u>875,863</u>	<u>707,947</u>	<u>(1,591,684)</u>	<u>(670,201)</u>
Net loss	<u>\$ (294,496)</u>	<u>\$ (1,221,361)</u>	<u>\$ (6,144,121)</u>	<u>\$ (6,583,421)</u>
Comprehensive loss:				
Net loss	(294,496)	(1,221,361)	\$ (6,144,121)	\$ (6,583,421)
Other comprehensive loss:				
Foreign currency translation loss	(11,563)	(18,875)	(26,749)	(44,561)
Total comprehensive loss	<u>\$ (306,059)</u>	<u>\$ (1,240,236)</u>	<u>\$ (6,170,870)</u>	<u>\$ (6,627,982)</u>
Net loss per common share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.12)</u>	<u>\$ (0.58)</u>	<u>\$ (0.66)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>10,746,186</u>	<u>10,095,889</u>	<u>10,533,090</u>	<u>9,946,737</u>

See accompanying notes to the financial statements.

Boxlight Corporation
Consolidated Condensed Statements of Changes in Stockholders' Equity
For the Three and Nine Months Ended September 30, 2019 and 2018
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total stockholders' equity, beginning balances	\$ 3,487,910	\$ 8,530,307	\$ 7,968,059	\$ 9,050,376
Series A preferred stock	25	25	25	25
Shares converted to Class A common stock	(8)	-	(8)	-
	<u>17</u>	<u>25</u>	<u>17</u>	<u>25</u>
Class A common stock and additional paid-in capital:				
Beginning balances	28,665,586	25,994,589	27,280,949	21,126,912
Shares issued for:				
Cash	-	-	-	420,000
Stock options exercised	-	-	-	3
Conversion of notes payable	-	40,691	382,525	40,691
Acquisition	-	354,000	500,000	2,617,746
Other share-based payments	12,001	11,999	36,001	80,236
Closing fees for issuance of notes payable	-	-	199,509	-
Preferred stock conversion	8	-	8	-
Executive compensation	294,998	-	294,998	-
Warrant cancellations-related party	-	-	-	1,148,068
Stock compensation expense	279,330	450,258	557,933	1,419,368
Other	-	-	-	(1,487)
Ending balances	<u>29,251,923</u>	<u>26,851,537</u>	<u>29,251,923</u>	<u>26,851,537</u>
Subscription receivable				
Beginning balances	(200)	(325)	(225)	(325)
Payment received from stockholder	-	100	25	100
Ending balances	<u>(200)</u>	<u>(225)</u>	<u>(200)</u>	<u>(225)</u>
Other comprehensive loss				
Beginning balances	(121,605)	(73,534)	(106,419)	(47,848)
Foreign currency translation (loss) gain	(11,563)	2,165	(26,749)	(23,521)
Ending balances	<u>(133,168)</u>	<u>(71,369)</u>	<u>(133,168)</u>	<u>(71,369)</u>
Accumulated deficit				
Beginning balances	(25,055,896)	(17,390,448)	(19,206,271)	(12,028,388)
Net loss	(294,496)	(1,215,011)	(6,144,121)	(6,577,071)
Ending balances	<u>(25,350,392)</u>	<u>(18,605,459)</u>	<u>(25,350,392)</u>	<u>(18,605,459)</u>
Total stockholders' equity, ending balances	<u>\$ 3,768,180</u>	<u>\$ 8,174,509</u>	<u>\$ 3,768,180</u>	<u>\$ 8,174,509</u>

See accompanying notes to the financial statements.

Boxlight Corporation
Consolidated Condensed Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
(Unaudited)

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Cash flows from operating activities:		
Net loss	\$ (6,144,121)	\$ (6,583,421)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount	210,735	66,236
Gain on debt conversion	(146,434)	-
Bad debt expense	(78,786)	53,220
Gain on settlement of accounts payable	-	(61,818)
Gain on settlement of derivative liabilities	-	(103,560)
Change in allowance for sales returns and volume rebate	(84,164)	295,774
Change in inventory reserve	(81,995)	(24,171)
Change in fair value of derivative liability	527,058	334,990
Stock compensation expense	895,516	1,567,176
Other share-based payments	36,001	24,000
Depreciation and amortization	689,043	630,391
Changes in operating assets and liabilities:		
Accounts receivable – trade	(4,611,130)	(3,058,242)
Inventories	1,264,336	1,199,321
Prepaid expenses and other current assets	(283,066)	(1,263,490)
Other assets	(4)	(210)
Deferred Charges	-	(3,449,710)
Accounts payable and accrued expenses	2,817,739	402,856
Warranty Reserve	199,347	1,091,090
Accounts payable and accrued expenses - related parties	(899,052)	477,201
Deferred revenues	(664,349)	4,615,486
Other short-term liabilities	72,768	-
Net cash used in operating activities	<u>\$ (6,280,556)</u>	<u>\$ (3,786,881)</u>
Cash flows from investing activities:		
Cash receipts from acquisitions	10,261	1,310,334
Cash paid for acquisitions	-	(410,138)
Cash paid for furniture and fixtures	(3,611)	-
Net cash provided by investing activities	<u>\$ 6,650</u>	<u>\$ 900,196</u>
Cash flows from financing activities:		
Proceeds from subscription receivable	25	100
Proceeds from short-term debt	22,024,710	17,497,820
Principal payments on short-term debt	(19,626,724)	(15,450,487)
Proceeds from convertible notes payable	4,000,000	-
Debt issuance costs	(170,000)	-
Proceeds from issuance of common stock	-	420,000
Exercise of options	-	3
Other	(22,570)	-
Net cash provided by financing activities	<u>\$ 6,205,441</u>	<u>\$ 2,467,436</u>
Effect of foreign currency exchange rates	(26,749)	(4,663)
Net decrease in cash and cash equivalents	<u>\$ (95,214)</u>	<u>\$ (423,912)</u>
Cash and cash equivalents, beginning of the period	<u>901,459</u>	<u>2,010,325</u>
Cash and cash equivalents, end of the period	<u>\$ 806,245</u>	<u>\$ 1,586,413</u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u>\$ 1,160,808</u>	<u>\$ 517,136</u>
Non-cash investment and financing transactions:		
Conversion of notes payable	<u>\$ 382,525</u>	<u>-</u>

Shares and notes payable issued as consideration for acquisition of Modern Robotics, Inc. net of cash received	\$	559,739	-
Shares issued for closing fees related to outstanding notes payable	\$	199,509	-
Shares issued to convert preferred stock	\$	13	
Shares issued as consideration for the acquisition of Cohuborate	\$	-	\$ 1,435,176
Shares, notes payable and earn-out liability issued as consideration the acquisition of Qwizdom	\$	-	\$ 1,894,570
Shares issued as consideration for the acquisition of EOS			354,000
Additional contribution from settlement of related party derivative liability	\$	-	\$ 1,149,580
Issuance of Class A common shares to settle accounts payable	\$	-	\$ 64,691

See accompanying notes to the financial statements.

Boxlight Corporation
Notes to Consolidated Condensed Financial Statements
(Unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

Boxlight Corporation (the “Company” or “Boxlight Parent”) was incorporated in the State of Nevada on September 18, 2014 with its headquarters in Atlanta, Georgia for the purpose of becoming a technology company that sells interactive educational products. In 2016, the Company acquired Boxlight, Inc., Boxlight Latinoamerica, S.A. DE C.V. (“BLA”) and Boxlight Latinoamerica Servicios, S.A. DE C.V. (“BLS”) (together, “Boxlight Group”), Mimio LLC (“Mimio”) and Genesis Collaboration, LLC (“Genesis”). In 2018, the Company acquired Cohubate Ltd. (“Cohuba”), Qwizdom Inc. and its subsidiary Qwizdom UK Limited (“Qwizdom Companies”) and EOSEDU, LLC (“EOS”). In 2019, the Company acquired Modern Robotics, Inc. (“MRI”). The Company currently designs, produces and distributes interactive technology solutions to the education market.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated condensed financial statements include the accounts of Boxlight Parent, Boxlight Group, Mimio, Genesis, Cohuba, Qwizdom Companies, EOS and MRI. Transactions and balances among all of the companies have been eliminated.

The accompanying unaudited consolidated condensed financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim unaudited consolidated condensed financial information and interim financial reporting guidelines and rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. The unaudited consolidated condensed financial statements reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. These unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018 and notes thereto contained in the Company’s Annual Report on Form 10-K. Certain information and note disclosures normally included in the consolidated financial statements have been condensed. The December 31, 2018 balance sheet included herein was derived from the audited consolidated financial statements, but does not include all disclosures, including notes, required by GAAP for complete financial statements.

ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are stated at contractual amounts, net of an allowance for doubtful accounts. The allowance for doubtful accounts represents management’s estimate of the amounts that ultimately will not be realized in cash. The Company reviews the adequacy of the allowance for doubtful accounts on an ongoing basis, using historical payment trends, the age of receivables and knowledge of the individual customers. When the analysis indicates, management increases or decreases the allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances might be required.

INVENTORIES

Inventories are stated at the lower of cost or net realizable value and includes spare parts and finished goods. Inventories are primarily determined using the specific identification method and the first-in, first-out (“FIFO”) cost method. Cost includes direct cost from the contract manufacturer (“CM”) or original equipment from manufacturer (“OEM”), plus material overhead related to the purchase, inbound freight and import duty costs.

The Company continuously reviews its inventory levels to identify slow-moving merchandise and markdowns necessary to clear slow-moving merchandise, which reduces the cost of inventories to its estimated net realizable value. Consideration is given to a number of quantitative and qualitative factors, including current pricing levels and the anticipated need for subsequent markdowns, aging of inventories, historical sales trends, and the impact of market trends and economic conditions. Estimates of markdown requirements may differ from actual results due to changes in quantity, quality and the mix of products in inventory, as well as changes in consumer preferences, market and economic conditions.

INTANGIBLE ASSETS AND GOODWILL

Intangible assets, other than goodwill are amortized using the straight-line method over their estimated period of benefit. We evaluate the recoverability of intangible assets, other than goodwill periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No material impairments of intangible assets have been identified during any of the periods presented. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a market approach. Goodwill is not amortized and is not deductible for tax purposes.

DERIVATIVES

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between equity and liabilities is required.

The Company determined that certain warrants to purchase common stock do not satisfy the criteria for classification as equity instruments due to the existence of certain net cash and non-fixed settlement provisions that are not within the sole control of the Company.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s financial instruments primarily include cash, accounts receivable, derivative liabilities, accounts payable and debt. Due to the short-term nature of cash, receivables and accounts payable, the carrying amounts of these assets and liabilities approximate their fair value. Debt approximates fair value due to either the short-term nature or recent execution of the debt agreement. The amount of consideration received is deemed to be the fair value of long-term debt net of any debt discount and issuance cost.

Derivative liabilities and the earn-out payable are recorded at fair value at each period end.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. A fair value hierarchy has been established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following table sets forth, by level within the fair value hierarchy, the Company's financial liabilities that were accounted for at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

Description	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value as of September 30, 2019
Derivative liabilities - warrant instruments	\$ -	\$ -	\$ 896,095	\$ 896,095
Earn-out payable – related party	-	-	387,430	387,430
			<u>\$ 1,283,525</u>	<u>\$ 1,283,525</u>

Description	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value as of December 31, 2018
Derivative liabilities - warrant instruments	\$ -	\$ -	\$ 326,452	\$ 326,452
Earn-out payable – related party	-	-	410,000	410,000
			<u>\$ 736,452</u>	<u>\$ 736,452</u>

The following table shows the change in the Company's earn-out payable rollforward for the nine months ended September 30, 2019 and 2018:

	Amount
Balance, December 31, 2018	\$ 410,000
Amount paid	(22,570)
Change in fair value of earn-out payable	-
Balance, September 30, 2019	<u>\$ 387,430</u>
Balance, December 31, 2017	\$ -
Earn-out payable – related party	410,000
Amount paid	-
Change in fair value of earn-out payable	-
Balance, September 30, 2018	<u>\$ 410,000</u>

REVENUE RECOGNITION

Revenue is comprised of product sales and service revenue, net of sales returns, early payment discounts, and volume rebate payments paid to the value-added resellers ("VARs"). The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

Product revenue is derived from the sale of projectors, interactive panels and related accessories. Evidence of an arrangement consists of an order from its distributors, resellers or end users. The Company considers delivery to have occurred once title and risk of loss has been transferred.

Service revenue is comprised of product installation services and training services. These service revenues are normally entered into at the time products are sold. Service prices are established depending on product equipment sold and include a cost value for the estimated services to be performed based on historical experience. The Company outsources installation and training services to third parties and recognizes revenue upon completion of the services. The Company also performs training and professional development services and recognizes revenue upon completion of the services.

The Company evaluates the criteria outlined in Accounting Standards Codification (“ASC”) Subtopic 605-45, “Principal Agent Considerations,” in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as revenue. Generally, when the Company is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross amount. If the Company is not primarily obligated and amounts earned are determined using a fixed percentage, a fixed-payment schedule, or a combination of the two, the Company generally records the net amounts as revenue earned.

The Company generally does not allow product returns other than under warranty. However, the Company, on a case by case basis, will grant exceptions, mostly for “buyer’s remorse” where the VAR’s end user customer either did not understand what they were ordering, or determined that the product did not meet their specific needs. An allowance for sales returns is estimated based on an analysis of historical trends.

The Company uses resellers and distributors to sell its products. Resellers' sale agreements generally do not contain any special pricing incentives, right of return or other post shipment obligations. Distributors' sale agreements, on the other hand, generally contain an inventory stock rotation clause, which gives the distributor the right to rotate its inventory within a specified period and in accordance to the Company's current return procedures.

The Company has a warranty policy to provide 12 to 36-month warranty coverage on projectors, displays, accessories, batteries and computers except when sold through a "Premier Education Partner" or sold to certain schools where the Company provides 60-month warranty coverage. The Company establishes liability for estimated product warranty costs at the time the related product revenue is recognized if the potential liability is expected to be material. The projected warranty obligation is affected by historical product failure rates and the related use of materials, labor costs and freight incurred in correcting any product failure. Should actual product failure rates, use of materials, or other costs differ from the Company's estimates, additional warranty liabilities could be required, which would reduce the Company's overall gross profit.

The Company offers sales incentives where the Company via offering discounted products to Company's resellers and distributors that are redeemable only if the resellers and distributors achieve specified cumulative levels of revenue which were formally agreed to in their reseller and distributor agreements through an executed addendum. The resellers and distributors have to submit a request for the discounted products. The value of the award products as compared to the value of the transactions necessary to earn the award is generally insignificant in relation to the value of the transactions necessary to earn the award. The Company estimates and records the cost of the products related to the incentive as revenues based on analyses of historical data.

STOCK COMPENSATION

The Company estimates the fair value of each share-based compensation award at the grant date by using the Black-Scholes option pricing model. The fair value determined represents the cost for the award and is recognized over the vesting period during which an employee is required to provide service in exchange for the award. As share-based compensation expense is recognized based on awards ultimately expected to vest, excess tax benefits, if any, are recognized as an addition to paid-in capital.

SUBSEQUENT EVENTS

The Company has evaluated all transactions through the financial statement issuance date for subsequent event disclosure consideration.

NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new guidance provides new criteria for recognizing revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance requires expanded disclosures to provide greater insight into both revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. Quantitative and qualitative information will be provided about the significant judgments and changes in those judgments that management made to determine the revenue that is recorded. Since the Company is an Emerging Growth Company, the ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Earlier application is permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently assessing the provisions of the guidance and has not determined the impact of the adoption of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). The new guidance requires organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. Since the Company is an Emerging Growth Company, the ASU is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Earlier application is permitted. The new standard is to be applied using a modified retrospective approach. The Company is currently evaluating the impact of the new pronouncement on its financial statements.

In February 2017, the FASB issued ASU 2017-04 to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The ASU is effective for annual reporting periods beginning after December 12, 2019. The new pronouncement has no impact to the Company’s procedure in measuring the fair value of goodwill and will continue to perform goodwill impairment test through both quantitative and qualitative assessment.

In March 2019, the Company adopted ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” The new guidance modifies the disclosure requirements for fair value measurement, most notably eliminating the need to disclose the amount and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels, and the valuation processes for Level 3 measurements. Certain disclosure modifications are not yet applicable to the Company as an emerging growth company. Those include the requirements added to Topic 820, such as enhanced disclosures regarding uncertainty, providing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 measurements, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Non-employee Share-Based Payment Accounting* to simplify the accounting of share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The new guidance expands the scope of FASB ASC Topic 718, *Compensation - Stock Compensation*, to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in an entity’s own operations. The ASU supersedes the guidance in Subtopic 505-50, *Equity – Equity-Based Payments to Non-Employees*. Awards to nonemployees are measured by estimating the fair value of the goods or services received or the fair value of the equity instruments issued, whichever can be measured more reliably. The guidance is effective for calendar-year public business entities in annual periods after December 15, 2018, and interim periods within those years. The Company adopted this pronouncement in the first quarter of 2019 and it did not have a material impact on its consolidated condensed financial statements.

There were various other accounting standards and interpretations issued recently, none of which are expected to have a material impact on our financial position, operations or cash flows.

NOTE 2 – GOING CONCERN

These consolidated condensed financial statements have been prepared on a going concern basis, which assumes the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary debt or equity financing to continue operations, and the attainment of profitable operations. As of September 30, 2019, the Company had an accumulated deficit of \$25,350,392 and a working capital deficit of \$5,166,264. During the nine months ended September 30, 2019, the Company incurred a net loss of \$6,144,121 and net cash used in operations was \$6,280,556. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern within one year after the issuance date of these consolidated condensed financial statements. These consolidated condensed financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company is seeking to obtain funds for operations through public or private sales of equity or debt securities or from bank or other loans.

NOTE 3 – ACQUISITIONS

The acquisition described below was accounted for as a business combination which requires, among other things, that assets acquired, and liabilities assumed be recognized at their estimated fair values as of the acquisition date on the balance sheet. Transaction costs are expensed as incurred. Any excess of the consideration transferred over the assigned values of the net assets acquired would be recorded as goodwill. The Company has not yet finalized its evaluation and determination of the fair value of certain assets acquired and liabilities assumed. The Company recorded provisional amounts based on initial measurements of the assets acquired and liabilities assumed. The provisional amounts are subject to change and could result in goodwill, which could be significant. The Company will finalize the amounts recognized no later than one year from the acquisition date.

On March 12, 2019, the Company entered into an asset purchase agreement with MRI, based in Miami, Florida. MRI is engaged in the business of developing, selling and distributing science, technology, engineering and math (STEM), robotics and programming solutions to the global education market. The Company purchased the net assets of MRI in exchange for 200,000 shares of the Company’s Class A common stock and a \$70,000 note payable.

Assets acquired:		
Cash	\$	10,261
Accounts receivable		66,300
Inventories		386,485

Prepaid expenses		24,413
Intangible assets		93,185
Total assets acquired		<u>580,644</u>
Total liabilities assumed		<u>(10,644)</u>
Net assets acquired	\$	<u>570,000</u>
Consideration paid:		
Issuance of 200,000 shares of Class A common stock	\$	500,000
Note payable		<u>70,000</u>
Total	\$	<u>570,000</u>

NOTE 4 – ACCOUNTS RECEIVABLE - TRADE

Accounts receivable consisted of the following at September 30, 2019 and December 31, 2018:

	<u>2019</u>	<u>2018</u>
Accounts receivable - trade	\$ 9,275,782	\$ 4,658,352
Allowance for doubtful accounts	(197,721)	(276,507)
Allowance for sales returns and volume rebates	(662,955)	(747,119)
Accounts receivable - trade, net of allowances	<u>\$ 8,415,106</u>	<u>\$ 3,634,726</u>

NOTE 5 – INVENTORIES

Inventories consisted of the following at September 30, 2019 and December 31, 2018:

	<u>2019</u>	<u>2018</u>
Finished goods	\$ 3,165,703	\$ 4,135,424
Spare parts	377,445	285,575
Reserve for inventory obsolescence	(124,688)	(206,683)
Inventories, net	<u>\$ 3,418,460</u>	<u>\$ 4,214,316</u>

During the nine months ended September 30, 2019 and 2018, no obsolete inventories were written off.

NOTE 6 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following at September 30, 2019 and December 31, 2018:

	<u>2019</u>	<u>2018</u>
Prepayments to vendors	\$ 990,267	\$ 1,033,896
Employee receivables	-	1,794
Prepaid local taxes	1,633	1,614
Prepaid insurance	19,451	-
Prepaid licenses and other	570,285	176,853
Prepaid expenses and other current assets	<u>\$ 1,581,636</u>	<u>\$ 1,214,157</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2019 and December 31, 2018:

	<u>Useful lives</u>	<u>2019</u>	<u>2018</u>
Building	50 years	\$ 199,708	\$ 199,708
Building improvements	15 years	9,086	9,086
Leasehold improvements	9-10 years	3,355	3,355
Office equipment	2-7 years	40,061	36,450
Other equipment	5 years	42,485	42,485
Property and equipment, at cost		294,695	291,084
Accumulated depreciation		(85,175)	(64,675)
Property and equipment, net of accumulated depreciation		<u>\$ 209,520</u>	<u>\$ 226,409</u>

For the nine months ended September 30, 2019 and 2018, the Company recorded depreciation expense of \$20,500 and \$47,944, respectively.

NOTE 8 – INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill consisted of the following at September 30, 2019 and December 31, 2018:

	<u>Useful lives</u>	<u>2019</u>	<u>2018</u>
Patents	10 years	\$ 81,683	\$ 81,683
Customer relationships	10 years	4,009,355	4,009,355
Technology	5 years	271,585	178,400
Domain	15 years	13,955	13,955
Trademarks	10 years	3,917,590	3,917,590
Intangible assets, at cost		\$ 8,294,168	\$ 8,200,983
Accumulated amortization		(2,517,253)	(1,848,710)
Intangible assets, net of accumulated amortization		<u>\$ 5,776,915</u>	<u>\$ 6,352,273</u>
Goodwill from acquisition of EOS	N/A	\$ 78,411	78,411
Goodwill from acquisition of Qwizdom	N/A	463,147	\$ 463,147
Goodwill from acquisition of Mimio	N/A	44,931	44,931
Goodwill from acquisition of Boxlight	N/A	4,137,060	4,137,060
		<u>\$ 4,723,549</u>	<u>\$ 4,723,549</u>

For the nine months ended September 30, 2019 and 2018, the Company recorded amortization expense of \$668,543 and \$582,447, respectively.

NOTE 9 – DEBT

The following is a summary of our debt at September 30, 2019 and December 31, 2018:

	<u>2019</u>	<u>2018</u>
Debt – Third Parties		
Note payable – Lind Global	\$ 3,915,674	\$ -
Accounts receivable financing – Sallyport Commercial	4,384,536	953,739
Note payable – Radium 2 Capital	-	725,159
Note payable – Whitebirk Finance Limited	-	127,329
Note payable – Harbor Gates Capital	-	500,000
Total debt – third parties	<u>8,300,210</u>	<u>2,306,227</u>
Less: current portion of debt – third parties	<u>6,883,522</u>	<u>2,306,227</u>
Long-term debt – third parties	<u>\$ 1,416,688</u>	<u>\$ -</u>
Debt – Related Parties		
Note payable – Qwizdom (Darin & Silvia Beamish)	381,563	601,333
Note payable – Steve Barker	\$ 35,000	\$ -
Note payable – Logical Choice Corporation – Delaware	54,000	54,000
Note payable – Mark Elliott	50,000	50,000
Total debt – related parties	<u>520,563</u>	<u>705,333</u>
Less: current portion of debt – related parties	<u>357,668</u>	<u>377,333</u>
Long-term debt – related parties	<u>\$ 162,895</u>	<u>\$ 328,000</u>
Total debt	<u>\$ 8,820,773</u>	<u>\$ 3,011,560</u>

Debt - Third Parties:

Lind Global Marco Fund, LP

On March 22, 2019, the Company entered into a securities purchase agreement with Lind Global Marco Fund, LP (the “Investor”) that contemplates a \$4,000,000 working capital financing for Boxlight Parent and its subsidiaries. The investment is in the form of a \$4,400,000 principal amount convertible secured Boxlight Parent note with a maturity date of 24 months. The note is convertible at the option of the Investor into the Company’s Class A voting common stock at a fixed conversion price of \$4.00 per share. The Company will have the right to force the Investor to convert up to 50% of the outstanding amount of the note if the volume weighted average closing price of our Class A common stock trades above \$8.00 for 30 consecutive days; and 100% of the outstanding amount of the note if the volume weighted average closing price of our Class A common stock trades above \$12.00 for 30 consecutive days. As of September 30, 2019, outstanding principal net of debt issuance cost and discount, and accrued interest were \$3,915,674 and \$178,960, respectively. Principal of \$2,933,332 is due within one year from September 30, 2019.

Accounts Receivable Financing – Sallyport Commercial Finance

On August 15, 2017, Boxlight Inc., and Genesis entered into a 12-month term account sale and purchase agreement with Sallyport Commercial Finance, LLC (“Sallyport”). Pursuant to the agreement, Sallyport agreed to purchase 85% of the eligible accounts receivable of the Company with a right of recourse back to the Company if the receivables are not collectible. This agreement requires a minimum monthly sales volume of \$1,250,000 with a maximum facility limit of \$6,000,000. Advances against this agreement accrue interest at the rate of 4% in excess of the highest prime rate publicly announced from time to time with a floor of 4.25%. In addition, the Company is required to pay a daily audit fee of \$950 per day. The Company granted Sallyport a security interest in all of Boxlight Inc. and Genesis’ assets.

As of September 30, 2019, outstanding principal and accrued interest were \$4,384,536 and \$0, respectively. For the nine months ended September 30, 2019, the Company incurred interest expense of \$573,796.

Radium Capital

On September 20, 2018, the Company entered into an agreement for the purchase and sale of future receipts with Radium Capital. Pursuant to the agreement, Radium provided proceeds of \$1,000,000 to the Company based on expected future revenue. The cost of the proceeds was 26% of the loan amount plus a \$10,000 origination fee. The origination fee was recorded as original issue discount and fully amortized due to the short-term nature of the agreement. In order to repay the debt, the Company made weekly payments of \$26,636 that commenced on October 3, 2018 and continued until August 28, 2019. As of September 30, 2019, the outstanding principal and accrued interest were \$0 and \$0, respectively.

Whitebirk Finance Limited

On September 20, 2018, the Company entered into an unsecured promissory note agreement for £98,701 with Whitebirk Finance Limited. The note bears interest at a rate of 5% and matures on August 31, 2019. This note was executed to settle outstanding accounts payable between Cohuba and Whitebirk related to inventory purchases. As of September 30, 2019, the outstanding principal and accrued interest were \$0 and \$0, respectively.

Harbor Gates Capital

On May 16, 2018, the Company entered into an unsecured promissory note agreement for \$500,000 with Harbor Gates Capital. The note bore an interest at the rate of 7% per annum and matured on February 16, 2019. In addition, the Company issued 5,715 shares of its Class A common stock valued at \$56,236 to the lender in lieu of payment of origination fees. The note was recorded at original issue discount and fully amortized because of its short-term nature. The Company failed to pay the note on the maturity date. As such on March 14, 2019, the note was converted into 133,750 shares of Class A common stock including the accrued interest valued at \$2.86 per share.

Debt - Related Parties:

Long Term Note Payable- Qwizdom Shareholders

On June 22, 2018, the Company issued a note to Darin and Silvia Beamish, the previous 100% shareholders of Qwizdom, in the amount of \$656,000 bearing an 8% interest rate. The note was issued as a part of the purchase price pursuant to a stock purchase agreement. The principal and accrued interest of the \$656,000 note is due and payable in 12 equal quarterly payments. The first quarterly payment was due September 2018 and subsequent quarterly payments are due through June 2021. Principal and accrued interest become due and payable in full upon the completion of a public offering of Class A common stock or private placement of debt or equity securities for \$10,000,000 or more. As of September 30, 2019, outstanding principal and accrued interest under this note were \$381,563 and \$0, respectively. As of December 31, 2018, outstanding principal and accrued interest under this agreement was \$601,333 and \$12,126, respectively. Principal in the amount of \$218,668 is due within a year from September 30, 2019.

Note Payable – Steve Barker

On March 12, 2019, the Company purchased the MRI net assets for 200,000 shares of the Company's Class A common stock and a \$70,000 note payable. As of September 30, 2019, outstanding principal and accrued interest under this agreement was \$35,000 and \$0, respectively.

Line of Credit - Logical Choice Corporation-Delaware

On May 21, 2014, the Company entered into a line of credit agreement (the "LCC Line of Credit") with Logical Choice Corporation-Delaware ("LCC-Delaware"), the former sole member of Genesis. The LCC Line of Credit allowed the Company to borrow up to \$500,000 for working capital and business expansion. The funds when borrowed accrued interest at 10% per annum. Interest accrued on any advanced funds was due monthly and the outstanding principal and any accrued interest were due in full on May 21, 2015. In May 2016, the maturity date was extended to May 21, 2018. The LCC Line of Credit is currently in default. The assets of Genesis have been pledged, but subordinated to Sallyport financing, as a security interest against any advances on the line of credit. As of September 30, 2019, outstanding principal and accrued interest under this agreement was \$54,000 and \$25,355, respectively. As of December 31, 2018, outstanding principal and accrued interest under this agreement was \$54,000 and \$21,316, respectively.

Note Payable – Mark Elliott

On January 16, 2015, the Company issued a note to James Mark Elliott, the Company's Chief Executive Officer, in the amount of \$50,000. The note, as later amended, was due on December 31, 2018 and bears interest at an annual rate of 10%, compounded monthly. The note is convertible into the Company's common stock at the lesser of (i) \$6.28 per share, (ii) a discount of 20% to the stock price if the Company's common stock is publicly traded, or (iii) if applicable, such other amount negotiated by the Company. The note holder may convert all, but not less than all, of the outstanding principal and interest due under this note. On July 3, 2018, Mr. Elliott and the Company amended the note to eliminate the conversion provision of the note. As of September 30, 2019, outstanding principal and accrued interest under this note were \$50,000 and \$23,548, respectively. The note is currently in default. As of December 31, 2018, outstanding principal and accrued interest under this note were \$50,000 and \$19,808, respectively.

NOTE 10 – DEFERRED REVENUE

The Company has future performance obligations for separately priced extended warranties sold related to its Lamps for Life program and advances from customers. Activity during the nine months ended September 30, 2019 and 2018 was as follows:

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Balance, beginning of period	\$ 1,073,014	\$ 1,212,292
Additions	1,667,812	15,830,015
Amortization	<u>(2,332,161)</u>	<u>(11,129,344)</u>
Balance, ending of period	408,665	5,912,963
Deferred revenue – short-term	311,184	5,749,610
Deferred revenue – long-term	<u>\$ 97,481</u>	<u>\$ 163,353</u>

During September 2018, the Company entered an arrangement with a distributor which specifies shipment to an intermediate site before final delivery to the end user. The distributor prepaid the majority of the sales price and assumes the title to the products upon shipment to the intermediate site. The Company deferred both the revenue and related product costs until final delivery. Deferred revenue related to the arrangement was \$4.6 million at September 30, 2018 and was released December 2018.

NOTE 11 – DERIVATIVE LIABILITIES

The Company had issued warrants that contain net cash settlement provisions or do not have fixed settlement provisions because their conversion and exercise prices may be lowered if the Company issues securities at lower prices in the future. The Company concluded that the warrants should be accounted for as derivative liabilities. In determining the fair value of the derivative liabilities, the Company used the Black-Scholes option pricing model at September 30, 2019 and 2018:

	<u>September 30, 2019</u>
Common stock issuable upon exercise of warrants	1,189,949
Market value of common stock on measurement date	\$ 1.84
Exercise price	\$ 1.20-2.23
Risk free interest rate (1)	1.63-1.88%
Expected life in years	0.25-2.25 years
Expected volatility (2)	73.69-87.03%
Expected dividend yields (3)	0%

	<u>September 30, 2018</u>
Common stock issuable upon exercise of warrants	1,129,121
Market value of common stock on measurement date	\$ 2.92
Exercise price	\$ 3.10
Risk free interest rate (1)	2.59 - 2.88%
Expected life in years	1.3 – 3.3 years
Expected volatility (2)	67 – 68%
Expected dividend yields (3)	0%

- (1) The risk-free interest rate was determined by management using the applicable Treasury Bill as of the measurement date.
- (2) The expected volatility was determined by calculating the volatility of the Company's peers' common stock.
- (3) The Company does not expect to pay a dividend in the foreseeable future.

The following table shows the change in the Company's derivative liabilities rollforward for the nine months ended September 30, 2019 and 2018:

	<u>Amount</u>
Balance, December 31, 2018	\$ 326,452
Initial valuation of derivative liabilities upon issuance of warrants	42,585
Change in fair value of derivative liabilities	<u>527,058</u>
Balance, September 30, 2019	<u>\$ 896,095</u>

	<u>Amount</u>
Balance, December 31, 2017	\$ 1,857,252
Initial valuation of derivative liabilities upon issuance of warrants	149,321
Cancellation of warrants	(1,253,140)
Change in fair value of derivative liabilities	<u>334,990</u>
Balance, September 30, 2018	<u>\$ 1,088,423</u>

The change in fair value of derivative liabilities includes losses from exercise price modifications.

NOTE 12 – EQUITY

Preferred Shares

The Company's articles of incorporation provide that the Company is authorized to issue 50,000,000 shares of preferred stock consisting of: 1) 250,000 shares of non-voting Series A preferred stock, with a par value of \$0.0001 per share; 2) 1,200,000 shares of voting Series B preferred stock, with a par value of \$0.0001 per share; 3) 270,000 shares of voting Series C preferred stock, with a par value of \$0.0001 per share; and 4) 48,280,000 shares to be designated by the Company's Board of Directors.

The Company issued 1,000,000 shares of Series B preferred stock for the acquisition of Genesis and 270,000 shares of Series C preferred stock for the acquisition of Boxlight Group. Upon the completion of the initial public offering (“IPO”) in November 2017, all shares of Series B and C preferred stock related to the acquisitions of Genesis and Boxlight Group were converted to Class A common stock.

Upon completion of the Company’s IPO, an aggregate of 250,000 shares of the Company’s non-voting convertible Series A preferred stock were issued to Vert Capital for the acquisition of Genesis. All of the Series A preferred stock shall be converted into 398,406 shares of Class A common stock. On August 5, 2019, 82,028 of these preferred shares were converted into 130,721 shares of Class A common stock.

Common Stock

The Company’s common stock consists of: 1) 150,000,000 shares of Class A voting common stock and 2) 50,000,000 shares of Class B non-voting common stock. Class A and Class B common stock have the same rights except that Class A common stock is entitled to one vote per share while Class B common stock has no voting rights. Upon any public or private sale or disposition by any holder of Class B common stock, such shares of Class B common stock shall automatically convert into shares of Class A common stock. As of September 30, 2019 and December 31, 2018, the Company had 10,849,966 and 10,176,433 shares of Class A common stock issued and outstanding, respectively. No Class B shares were outstanding at September 30, 2019 and December 31, 2018.

Issuance of common stock

During the nine months ended September 30, 2019, the Company issued 14,380 shares of common stock in lieu of payment for services with an aggregate amount of \$36,000.

On March 12, 2019, the Company issued 200,000 shares of common stock to the shareholder of Modern Robotics, Inc. valued at \$2.50 per share, related to the asset purchases agreement.

On March 14, 2019, the Company issued 133,750 shares of common stock valued at \$2.86 per share to Harbor Gates Capital to settle the \$500,000 outstanding convertible note including accrued interest.

On March 22, 2019, the Company issued 71,766 shares of common stock valued at \$2.78 per share in lieu of payment of the closing fees of the convertible debt issued to Lind Global.

On August 6, 2019, the Company issued 122,916 shares of common stock valued at \$2.40 per share as part of executive compensation.

On August 6, 2019, the company issued 130,721 shares of common stock to convert 82,028 shares of preferred stock issued to Vert Capital for the acquisition of Genesis.

Exercise of stock options

No options to purchase common stock were exercised during the nine months ended September 30, 2019.

NOTE 13 – STOCK COMPENSATION

The total number of underlying shares of the Company’s Class A common stock available for grant to directors, officers, key employees, and consultants of the Company or a subsidiary of the Company under the plan is 2,690,438 shares. Grants made under this plan must be approved by the Company’s Board of Directors. As of September 30, 2019, the Company had 461,966 shares reserved for issuance under the plan.

Stock Options

Under our stock option program, an employee receives an award that provides the opportunity in the future to purchase the Company's shares at the market price of our stock on the date the award is granted (strike price). The options become exercisable over a range of immediately vested to four-year vesting periods and expire five years from the grant date, unless stated differently in the option agreements, if they are not exercised. Stock options have no financial statement effect on the date they are granted but rather are reflected over time through compensation expense. We record compensation expense based on the estimated fair value of the awards which is amortized as compensation expense on a straight-line basis over the vesting period. Accordingly, total expense related to the award is reduced by the fair value of options that are forfeited by employees that leave the Company prior to vesting.

Following is a summary of the option activities during the nine months ended September 30, 2019:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding, December 31, 2018	1,718,024	\$ 4.18	4.64
Granted	543,250	\$ 1.83	
Cancelled	(88,641)	\$ 5.33	
Outstanding, September 30, 2019	2,172,643	\$ 3.55	4.32
Exercisable, September 30, 2019	1,493,809	\$ 3.38	3.91

The Company estimates the fair value of each stock option award on the date of grant using a Black-Scholes option pricing model. As of September 30, 2019, the options had an intrinsic value of approximately \$0.9 million.

On January 2, 2019, the Company granted 100,000 stock options each, for a total of 300,000 options to purchase common stock, to its President, Chief Executive Officer and Chief Operating Officer with an exercise price of \$1.30 per share, which options vest monthly over one-year period. The expiration date of these options is five years from the grant date. These options had an aggregated fair value of approximately \$186,411 on the grant date that was calculated using the Black-Scholes option-pricing model.

On March 12, 2019, the Company issued 20,000 stock options to Steve Barker, Vice President of Robotics at Boxlight with an exercise price of \$2.50 per share. The expiration date of these options is ten years from the grant date. These options had an aggregate fair value of approximately \$31,436 on the grant date.

On June 22, 2019, the Company granted 60,000 stock options to employees from the Qwizdom acquisition with an exercise price of \$2.85 per share vesting annually over four years commencing June 22, 2020 as part of their compensation. The expiration date of these options is ten years from grant date. These options have an aggregate fair value of approximately \$106,861 on the grant date.

On August 6, 2019, the Company granted an aggregate of 131,250 stock options to each of its directors with an exercise price of \$2.40 per share vesting monthly over one year. The expiration date of these options is five years from the grant date. These options had an aggregated fair value of approximately \$146,380 on the grant date that was calculated using the Black-Scholes option-pricing model.

On September 17, 2019, the Company granted 32,000 stock options to employees from the EOS acquisition with an exercise price of \$2.09 per share vesting annually over four years commencing September 17, 2020 as part of their compensation. The expiration date of these options is ten years from grant date. These options have an aggregate fair value of approximately \$41,811 on the grant date.

Variables used in the Black-Scholes option-pricing model for options granted during the nine months ended September 30, 2019 include: (1) discount rate of 1.54 - 2.47% (2) expected life, using a simplified method, of 3 to 6 years, (3) expected volatility of 69 - 70%, and (4) zero expected dividends.

Warrants

Following is a summary of the warrant activities during the nine months ended September 30, 2019:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding, December 31, 2018	1,184,121	\$ 1.9	1.63
Granted	60,827	\$ 2.2	
Outstanding, September 30, 2019	1,244,948	\$ 1.5	0.85
Exercisable, September 30, 2019	1,191,824	\$ 1.26	0.75

During the nine months ended September 30, 2019, the Company issued 60,827 warrants to Dynamic Capital, the warrants were issued in accordance with the terms of the warrant agreement that required the issuance of additional shares when the Company issues shares to either raise additional capital or complete an acquisition.

Variables used in the Black-Scholes option-pricing model for warrants granted during the nine months ended September 30, 2019 include: (1) discount rate of 2.45 - 2.52% (2) expected life of 0.78 – 0.81 years, (3) expected volatility of 74%, and (4) zero expected dividends.

Stock compensation expense

For the nine months ended September 30, 2019 and 2018, the Company recorded the following stock compensation in general and administrative expense:

	2019	2018
Stock options	\$ 557,933	\$ 1,417,882
Warrants	42,585	149,294
Common stock	294,998	-
Total stock compensation expense	<u>\$ 895,516</u>	<u>\$ 1,567,176</u>

As of September 30, 2019, there was approximately \$1.5 million of unrecognized compensation expense related to unvested options, which will be amortized over the remaining vesting period. Of that total, approximately \$0.2 million is estimated to be recorded as compensation expense in the remaining three months of 2019.

NOTE 14 – OTHER RELATED PARTY TRANSACTIONS

Management Agreement

On November 30, 2017, the Company entered into a management agreement with Dynamic Capital, LLC, a Nevada limited liability company owned by the AEL Irrevocable Trust and managed by Adam Levin (“Dynamic Capital”). Pursuant to the agreement, Dynamic Capital was to perform consulting services for the Company relating to, among other things, sourcing and analyzing strategic acquisitions and introductions to various financing sources. In consideration for its services, Dynamic Capital was to receive a management fee payable in cash equal to 1.125% of total consolidated net revenues for the fiscal years ended December 31, 2017 and 2018, payable in monthly installments. The annual fee is subject to a cap of \$750,000 in each of 2017 and 2018. At its option, Dynamic Capital may defer payment until the end of each year and receive payment in the form of shares of Class A common stock of the Company. As of September 30, 2019, and December 31, 2018, the Company had a payable to Dynamic Capital \$0 and \$425,619, respectively.

On January 31, 2018, the Company entered into a management agreement (the “Management Agreement”) with an entity owned and controlled by our President and Director, Michael Pope. The Management Agreement is separate and apart from Mr. Pope’s employment agreement with the Company’s Management Agreement, effective as of the first day of the same month that Mr. Pope’s employment with the Company shall terminate, and for a term of 13 months, Mr. Pope shall provide consulting services to the Company including sourcing and analyzing strategic acquisitions, assisting with financing activities, and other services. As consideration for the services provided, the Company shall pay a management fee equal to 0.375% of the consolidated net revenues of the Company, payable in monthly installments, not to exceed \$250,000 in any calendar year. At his option, Mr. Pope may defer payment until the end of each year and receive payment in the form of shares of Class A common stock of the Company.

Sales and Purchases - EDI

Everest Display Inc. (“EDI”), an affiliate of the Company’s major shareholder K-Laser Technology, Inc., is a major supplier of products to the Company. For the nine months ended September 30, 2019 and 2018, the Company had purchases of \$855,947 and \$3,296,797, respectively, from EDI. For the nine months ended September 30, 2019 and 2018, the Company had sales of \$37,360 and \$18,546, respectively, to EDI. As of September 30, 2019, and December 31, 2018, the Company had accounts payable of \$5,077,670 and \$5,491,616, respectively, to EDI.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases three offices under non-cancelable lease agreements. The leases provide that the Company pays only a monthly rental and is not responsible for taxes, insurance or maintenance expenses related to the property. Future minimum lease payments of the Company’s operating leases with a term over one year subsequent to September 30, 2019 are as follows:

Year ending December 31,	Amount
2019	\$ 85,077
2020	335,032
2021	315,840
2022	79,440
Net Minimum Lease Payments	<u>\$ 815,389</u>

For the nine months ended September 30, 2019 and 2018, aggregate rent expense was \$312,910 and \$216,466 respectively.

NOTE 16 – CUSTOMER AND SUPPLIER CONCENTRATION

Significant customers and suppliers are those that account for greater than 10% of the Company’s revenues and purchases.

The Company’s revenues were concentrated among few customers for the nine months ended September 30, 2019 and 2018:

Customer	Total revenues from the customer to total revenues for the nine months ended September 30, 2019	Accounts receivable from the customer as of September 30, 2019 (rounded to 000’s)
1	13%	\$ 643
2	13%	2,624
3	13%	638

Customer	Total revenues from the customer to total revenues for the nine months ended September 30, 2018	Accounts receivable from the customer as of September 30, 2018 (rounded to 000’s)
1	31%	\$ 4,891

The loss of the significant customer or the failure to attract new customers could have a material adverse effect on our business, results of operations and financial condition.

The Company’s purchases were concentrated among a few vendors for the nine months ended September 30, 2019 and 2018:

Vendor	Total purchases from the vendor to total purchases for the nine months ended September 30, 2019	Accounts payable (prepayment) to the vendor as of September 30, 2019 (rounded to 000’s)
1	34%	\$ (1,789)

Vendor	Total purchases from the vendor to total purchases for the nine months ended September 30, 2018	Accounts payable (prepayment) to the vendor as of September 30, 2018 (rounded to 000’s)
1	33%	\$ (495)
2	31%	\$ (429)
3*	17%	-

*EDI, a related party. See Note 14.

The Company believes there are other suppliers that could be substituted should the supplier become unavailable or non-competitive.

NOTE 17 – SUBSEQUENT EVENTS

On October 1, 2019, the Company granted an aggregate of 207,000 stock options to its employees with an exercise price of \$1.84 per share, which options vest quarterly in equal installments over a period of four years. The expiration date of these options is five years from the grant date.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this Form 10-Q may contain forward-looking statements relating to Boxlight Corporation. All statements, trend analyses and other information relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as “anticipate”, “believe”, “plan”, “estimate”, “expect”, “trend” “intend”, and other similar expressions, constitute forward-looking statements. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties including those factors described below under “Factors That May Affect Future Operations”, and that actual results may differ materially from those contemplated by such forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

Overview

We are an educational technology company that is seeking to become a world leading innovator and integrator of interactive products and software for schools, as well as for business and government learning spaces. We currently design, produce and distribute interactive projectors and distribute interactive technologies, including flat panels, projectors, whiteboards and peripherals to the education market. We also distribute science, technology, engineering and math (or “STEM”) products, including a portable science lab. All of our products are integrated into our classroom software suite that provides tools for whole class learning, assessment and collaboration.

To date, we have generated substantially all of our revenue from the sale of our software and interactive displays to the K-12 U.S. educational market.

We have also implemented a comprehensive plan to reach profitability both from our core business operations and as a result of making strategic business acquisitions. We have already started to implement this strategy as set forth below. Highlights of our plan include:

- Integrating products of the acquired companies and cross training our sales reps to increase their product offerings. The combination of products and cross training has already resulted in increased sales. The synergy we have found between the products of Boxlight and Mimio are adding opportunities to resellers for both companies to increase their sales.
- Hiring new sales representatives with significant education technology sales experience in their respective territories and our current pipeline has reached a record high level.
- Seeking to increase demand in the US market for technology sales and have the products and infrastructure in place to handle our expected growth.

Recent Acquisitions

On March 12, 2019, we and our subsidiary, Boxlight Inc. acquired the assets and business of Modern Robotics, Inc., a New York corporation (“MRI”). The MRI assets were purchased for consideration including (i) \$70,000 in the form of a promissory note and (ii) Two Hundred Thousand (200,000) shares of our Class A common stock. At closing, Boxlight Inc. entered into an employment agreement with Stephen Barker, MRI’s Chief Executive Officer, pursuant to which Mr. Barker will serve as Vice President of Robotics at Boxlight Inc. In addition, we granted options to Mr. Barker to purchase 20,000 shares of our Class A common stock at an exercise price of \$2.50 per share.

Acquisition Strategy

Our growth strategy includes acquiring assets and technologies of companies that have products, technologies, industry specializations or geographic coverage that extend or complement our existing business. The process to undertake a potential acquisition is time-consuming and costly. We expect to expend significant resources to undertake business, financial and legal due diligence on our potential acquisition targets, and there is no guarantee that we will complete any acquisition that we pursue.

We believe we can achieve significant cost-savings by merging the operations of the companies we acquire and after their acquisition leverage the opportunity to reduce costs through the following methods:

- Staff reductions – consolidating resources, such as accounting, marketing and human resources.
- Economies of scale – improved purchasing power with a greater ability to negotiate prices with suppliers.
- Improved market reach and industry visibility – increase in customer base and entry into new markets.

Components of our Results of Operations and Financial Condition

Revenues

Our revenue is comprised of product, installation and professional development revenues less sales discounts.

- *Product revenue.* Product revenue is derived from the sale of our interactive projectors, flat panels, peripherals and accessories, along with other third-party products, directly to our customers, as well as through our network of domestic and international distributors.
- *Installation revenue.* We receive revenue from installation and that we outsource to third parties.
- *Professional development revenue.* We receive revenue from providing professional development services through third parties and our network of distributors.

Cost of revenues

Our cost of revenues is comprised of the following:

- costs to purchase components and finished goods directly;
- third-party logistics costs;
- inbound and outbound freight costs and duties;
- costs associated with the repair of products under warranty;
- write-downs of inventory carrying value to adjust for excess and obsolete inventory and periodic physical inventory counts; and
- cost of professionals to deliver professional development training related to the use of our products.

We outsource some of our warehouse operations and order fulfillment and purchase products from related and third parties. Our product costs will vary directly with volume and the costs of underlying product components as well as the prices we are able to negotiate with our contract manufacturers. Shipping costs fluctuate with volume as well as with the method of shipping chosen in order to meet customer demand. As a global company with suppliers centered in Asia and customers located worldwide, we have used, and may in the future use, air shipping to deliver our products directly to our customers. Air shipping is more costly than sea or ground shipping or other delivery options. We primarily use air shipping to meet the demand of our products during peak seasons and new product launches.

Gross profit and gross profit margin

Our gross profit and gross profit margin have been, and may in the future be, influenced by several factors including: product, channel and geographical revenue mix; changes in product costs related to the release of projector models; component, contract manufacturing and supplier pricing and foreign currency exchange. As we primarily procure our product components and manufacture our products in Asia, our suppliers incur many costs, including labor costs, in other currencies. To the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our future average selling prices and unit costs. Gross profit and gross profit margin may fluctuate over time based on the factors described above.

Operating expenses

We classify our operating expenses into two categories: general and administrative and research and development.

General and administrative. General and administrative expense consists of personnel related costs, which include salaries and stock-based compensation, as well as the costs of professional services, such as accounting and legal, facilities, information technology, depreciation and amortization and other administrative expenses. General and administrative expense may fluctuate as a percentage of revenue, notably in the second and third quarters of our fiscal year when we have historically experienced our highest levels of revenue.

Research and development. Research and development expense consist primarily of personnel related costs, prototype and sample costs, design costs and global product certifications mostly for wireless certifications.

Other income (expense), net

Other income (expense), net consists of interest expense associated with our debt financing arrangements, changes in fair value of derivative liabilities, gain from settlements of liabilities and interest income earned on our cash. We do not utilize derivatives to hedge our foreign exchange risk, as we believe the risk to be immaterial to our results of operations.

Income tax expense

We are subject to income taxes in the countries in which we do business, including the United States, United Kingdom and Mexico. The United Kingdom and Mexico have a statutory tax rate different from those in the United States. Additionally, certain of our international earnings are also taxable in the United States. Our effective tax rates will vary depending on the relative proportion of foreign to U.S. income, absorption of foreign tax credits changes in the valuation of our deferred tax assets and liabilities and changes in tax laws. We regularly assess the likelihood of adverse outcomes resulting from the examination of our tax returns by the U.S. Internal Revenue Service and other tax authorities to determine the adequacy of our income tax reserves and expense. Should actual events or results differ from our current expectations, charges or credits to our income tax expense may become necessary. Any such adjustments could have a significant impact on our results of operations.

Operating Results – Boxlight Corporation

For the nine-month periods ended September 30, 2019 and 2018

Revenues. Total revenues for the nine months ended September 30, 2019 were \$27,711,452, as compared to \$25,856,310 for the nine months ended September 30, 2018, resulting in a 7% increase. The increase in revenues in 2019 is primarily attributable to the increase in sales volume.

Cost of Revenues. Cost of revenues for the nine months ended September 30, 2019 was \$19,439,775, as compared to \$20,217,670 for the nine months ended September 30, 2018, resulting in a 4% decrease. The decrease in cost of revenues were mainly the result of lower margins on the initial delivery of two large projects in 2018 sales.

Gross Profit. Gross profit for the nine months ended September 30, 2019 was \$8,271,677, as compared to \$5,638,640 for the nine months ended September 30, 2018. The increase in gross margin from 22% to 30% was largely driven by the lower margins on initial deliveries for two large projects during 2018 and renegotiated freight costs.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2019 was \$11,912,432 as compared to \$11,183,305 for the nine months ended September 30, 2018. The slight increase of \$0.7 million was primarily attributable to the increase in employee salaries of \$0.6 million, increase in cash bonus of \$0.3 million and an increase in contract services of \$0.2 million, which was offset by a decrease in stock-based compensation of \$0.7 million.

Research and Development Expenses. Research and development expense were \$911,682 and \$368,555 for the nine months ended September 30, 2019 and 2018, respectively. The increase in research and development expense was related to contract services primarily for software consultant costs of \$0.3 million for Qwizdom and salaries of \$0.1 million each for Qwizdom and MRI engineers.

Other Expense. Other expense for the nine months ended September 30, 2019 was \$1,591,684, as compared to \$670,201 for the nine months ended September 30, 2018. Other expense increased primarily due to increased interest expense of \$0.7 million from loans entered into with Lind Global for \$4.4 million and Radium for \$1.0 million, a change in fair value of derivative liability of \$0.2 million resulting from the quarterly mark to market adjustment driven by the change in the stock price.

Net loss. Net loss was \$6,144,121 and \$6,583,421 for the nine months ended September 30, 2019 and 2018, respectively. The decrease in the net loss was primarily due to an increase in gross profit offset by increase in the operating expense and interest expense.

For the three-month periods ended September 30, 2019 and 2018

Revenues. Total revenues for the three months ended September 30, 2019 were \$11,602,722, as compared to \$10,195,968 for the three months ended September 30, 2018, resulting in a 14% increase. The increase is primarily attributable to \$0.7 million increase in sales of hardware, \$0.4 increase in sales of software and \$0.3 million increase in professional development services.

Cost of Revenues. Cost of revenues for the three months ended September 30, 2019 was \$8,163,811, as compared to \$7,763,617 for the three months ended September 30, 2018. The cost of revenues decreased from 76% to 70% as a percentage of revenue due to lower margins on the initial delivery of two large projects in 2018 sales. In addition, the Company renegotiated the cost of goods with its primary vendors.

Gross Profit. Gross profit for the three months ended September 30, 2019 was \$3,438,911, as compared to \$2,432,351 for the three months ended September 30, 2018. Gross margin increased from 24% to 30%. The increase in gross profit was the result of higher profit margin from sale of software and professional development services.

General and Administrative Expenses. General and administrative expenses for the three months ended September 30, 2019 was \$4,258,166 as compared to \$4,262,707 for the three months ended September 30, 2018, which remained relatively flat.

Research and Development Expenses. Research and development expense were \$351,104 and \$98,952 for the three months ended September 30, 2019 and 2018, respectively. The increase in research and development was primarily due to software and engineering cost.

Other Income. Other Income for the three months ended September 30, 2019 was \$875,863 as compared to \$707,947 for the three months ended September 30, 2018. Other income mainly consists of interest expense and change in the fair value of derivative liabilities. The change in the fair value of derivative liability of \$0.6 million was a result of the quarterly mark to market adjustment impacted by the change in the stock price. This was offset by the increase of \$0.3 million in interest expense from the loan entered in 2019 with Lind Partners.

Net loss. Net loss was \$294,496 and \$1,221,361 for the three months ended September 30, 2019 and 2018, respectively. The decrease in net loss was mainly due to the increase in sales and higher margins and change in FV of derivative liabilities.

To provide investors with additional insight and allow for a more comprehensive understanding of the information used by management in its financial and decision-making surrounding operations, we supplement our consolidated condensed financial statements which are prepared in accordance with GAAP with EBITDA and Adjusted EBITDA, both non-GAAP financial measures of earnings.

EBITDA represents net loss before income tax expense, interest income, interest expense, depreciation and amortization. Adjusted EBITDA represents EBITDA, plus change in fair value of derivative liabilities, stock compensation expense and non-recurring expenses. Our management uses EBITDA and Adjusted EBITDA as financial measures to evaluate the profitability and efficiency of our business model. We use these non-GAAP financial measures to assess the strength of the underlying operations of our business. These adjustments, and the non-GAAP financial measures that are derived from them, provide supplemental information to analyze our operations between periods and over time. We find this especially useful when reviewing results of operations, which include large non-cash amortizations of intangibles assets from acquisitions. Investors should consider our non-GAAP financial measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

The following table contains reconciliations of net losses to EBITDA for the periods presented.

**Reconciliation of net loss for the three months ended
September 30, 2019 and 2018 to EBITDA and adjusted EBITDA**

(in thousands)	September 30, 2019	September 30, 2018
Net loss	\$ (294)	\$ (1,221)
Depreciation and amortization	222	248
Interest expense	517	188
EBITDA	\$ 445	\$ (785)
Stock compensation expense	574	457
Change in fair value of derivative liabilities	(1,372)	(822)
Adjusted EBITDA	<u>\$ (353)</u>	<u>\$ (1,150)</u>

**Reconciliation of net loss for the nine months ended
September 30, 2019 and 2018 to EBITDA and adjusted EBITDA**

(in thousands)	September 30, 2019	September 30, 2018
Net loss	\$ (6,144)	\$ (6,583)
Depreciation and amortization	689	630
Interest expense	1,277	543
EBITDA	\$ (4,178)	\$ (5,410)
Stock compensation expense	896	1,567
Change in fair value of derivative liabilities	527	335
Adjusted EBITDA	<u>\$ (2,755)</u>	<u>\$ (3,508)</u>

Discussion of Effect of Seasonality on Financial Condition

Certain accounts on our financial statements are subject to seasonal fluctuations. As our business and revenues grow, we expect these seasonal trends to be reduced. The bulk of our products are shipped to our educational customers prior to the beginning of the school year, usually in June, July, August or September. To prepare for the upcoming school year, we generally build up inventories during the second quarter of the year. Therefore, inventories tend to be at the highest levels at that point in time. In the first quarter of the year, inventories tend to decline significantly as products are delivered to customers and we do not need the same inventory levels during the first quarter. Accounts receivable balances tend to be at the highest levels in the third quarter, in which we record the highest level of sales.

We have been very proactive, and will continue to be proactive, in obtaining contracts during the fourth and first quarters that will help offset the seasonality of our business.

Liquidity and Capital Resources

As of September 30, 2019, we had cash and cash equivalents of \$806,245 and a working capital deficit of \$5,166,264. For the nine months ended September 30, 2019 and 2018, we had net cash used in operating activities of \$6,280,556 and \$3,786,881, respectively, net cash provided by investing activities of \$6,650 and \$900,196 respectively, and net cash provided by financing activities of \$6,205,441 and \$2,467,436, respectively. We had accounts receivable net of allowances of \$8,415,106 and \$3,634,726 as of September 30, 2019 and year ended December 31, 2018.

We financed our operations in 2019 primarily with an accounts receivable financing arrangement entered into with a lender. The lender agreed to purchase 85% of the eligible accounts receivable of the Company, up to \$6 million, with the right of recourse. Our accounts receivable and our ability to borrow against accounts receivable provides an additional source of liquidity as cash payments are collected from customers in the normal course of business. Our accounts receivable balance fluctuates throughout the year based on the seasonality of the business.

Our cash requirements consist primarily of day-to-day operating expenses, capital expenditures and contractual obligations with respect to facility leases and other operating leases. We lease all of our office facilities. We expect to make future payments on existing leases from cash generated from operations. We have limited credit available from our major vendors and are required to prepay for the majority of our inventory purchases, which further constrains our cash liquidity.

The Company had an accumulated deficit and a net working capital deficit of approximately \$5,166,264 for the nine months ended September 30, 2019. These factors raise substantial doubt regarding the Company's ability to continue as a going concern within one year after the issuance date of these consolidated condensed financial statements. These consolidated condensed financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Recent Financing

On March 22, 2019, we entered into a securities purchase agreement with Lind Global Marco Fund, LP (the "Investor") that contemplates a \$4,000,000 working capital financing for Boxlight Parent and its subsidiaries. The investment is in the form of a \$4,400,000 principal amount convertible note secured by Boxlight Parent with a maturity date of 24 months. The note is convertible at the option of the Investor into our Class A voting common stock at a fixed conversion price of \$4.00 per share. We will have the right to force the Investor to convert up to 50% of the outstanding amount of the note if the volume weighted average closing price of our Class A common stock trades above \$8.00 for 30 consecutive days; and 100% of the outstanding amount of the note if the volume weighted average closing price of our Class A common stock trades above \$12.00 for 30 consecutive days. At closing, a total of \$4,000,000 was funded under the note.

We are required to make monthly interest payments on the note at the rate of 8% per annum and principal payments in 18 equal monthly installments of \$244,444 each, commencing six months after closing. So long as shares of our Class A common stock are registered for resale under the Securities Act or may be sold without restriction on the number of shares or manner of sale, we have the right to make interest payments in the form of additional shares of Class A common stock. We have the right to prepay the convertible note at any time with no penalty (the "Buy-Back Right"). Should we exercise our Buy-Back Right, the Investor will have the option of converting 25% of the outstanding \$4.4 million principal amount of the note into shares of our Class A common stock.

The convertible note is secured by a lien on our assets and properties.

Critical Accounting Policies and Estimates

Our consolidated condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated condensed financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in notes of the consolidated condensed financial statements. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain:

1. Revenue recognition
2. Intangible assets
3. Derivatives
4. Stock-based compensation expense

Emerging Growth Company

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of certain specified reduced reporting and other regulatory requirements that are available to public companies that are emerging growth companies.

These provisions include:

- (1) an exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002;
- (2) an exemption from the adoption of new or revised financial accounting standards until they would apply to private companies;
- (3) an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor’s report in which the auditor would be required to provide additional information about our audit and our financial statements; and
- (4) reduced disclosure about our executive compensation arrangements.

We have elected to take advantage of the exemption from the adoption of new or revised financial accounting standards until they would apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and that information is accumulated and communicated to management, including the principal executive and financial officer as appropriate, to allow timely decisions regarding required disclosures. Our principal executive officer and principal financial officer evaluated the effectiveness of disclosure controls and procedures as of the end of the fiscal quarter ended September 30, 2019 (“Evaluation Date”), pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective due to material weaknesses related to the following:

- insufficient personnel resources within the accounting function to segregate the duties between preparation and review of financial statements; and
- insufficient written policies and procedures over accounting transaction processing, capital transactions and period end financial disclosure.

The above material weaknesses resulted in ineffective oversight in the establishment and proper monitoring controls over accounting and financial reporting.

Notwithstanding the existence of the internal control deficiencies, management believes that the consolidated condensed financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, the Company’s financial condition as of the Evaluation Date, and results of its operations and cash flows for the Evaluation Date, in conformity with GAAP.

Inherent Limitations on Effectiveness of Controls.

Because of the inherent limitations in all control systems, no control system can provide absolute assurance that all control issues and instances of fraud, if any, within a 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. Additionally, controls can be circumvented by the individual acts of a person, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Notwithstanding these limitations, with the changes referenced above, we believe that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

(b) Changes in internal controls over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the three-month period ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

None.

ITEM 1A. RISK FACTORS

Not Applicable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

Item 6. Exhibits

The following exhibits are filed or furnished with this report:

Exhibit No.	Description of Exhibit
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Section 2: EX-31.1

Exhibit 31.1

CERTIFICATION

I, James Mark Elliott, certify that:

1. I have reviewed this quarterly Report on Form 10-Q Pursuant to Rule 15d-2 under the Securities Exchange Act of 1934 for the period ended September 30, 2019 of Boxlight Corporation (the “registrant”);

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: November 12, 2019

/s/ James Mark Elliott

James Mark Elliott
Chief Executive Officer
(Principal Executive Officer)

Section 3: EX-31.2

Exhibit 31.2

CERTIFICATION

I, Takesha Brown, certify that:

1. I have reviewed this quarterly Report on Form 10-Q Pursuant to Rule 15d-2 under the Securities Exchange Act of 1934 for the period ended September 30, 2019 of Boxlight Corporation (the “registrant”);

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: November 12, 2019

/s/ Takesha Brown

Takesha Brown
Chief Financial Officer
(Principal Financial and Accounting Officer)

Section 4: EX-32.1

Exhibit 32.1

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

In connection with the Quarterly Report of Boxlight Corporation (the “Company”) on Form 10-Q pursuant to Rule 15d-2 Under the Securities Exchange Act of 1934 for the period ending September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Mark Elliott, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 12, 2019

/s/ James Mark Elliott

James Mark Elliott
Chief Executive Officer
(Principal Executive Officer)

Section 5: EX-32.2

Exhibit 32.2

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

In connection with the Quarterly Report of Boxlight Corporation (the "Company") on Form 10-Q pursuant to Rule 15d-2 Under the Securities Exchange Act of 1934 for the period ending September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Takesha Brown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ Takesha Brown

Takesha Brown
Chief Financial Officer
(Principal Financial and Accounting Officer)

[\(Back To Top\)](#)