

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number—001-32217

**Cool Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**33-0599368**

(IRS Employer  
Identification Number)

**2001 NW 84<sup>th</sup> Avenue, Miami, FL 33122**

(Address of principal executive offices including zip code)

**(858) 373-1675**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	AWSM	OTC Markets Group Inc.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of November 14, 2019, the Registrant had 25,740,746 shares outstanding of its \$0.001 par value common stock.

**Cool Holdings, Inc.**

**FORM 10-Q**  
**For quarterly period ended September 30, 2019**

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

Item 1.	Financial Statements:	
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2019 and 2018 (unaudited) .....	3
	Condensed Consolidated Balance Sheets at September 30, 2019 (unaudited) and December 31, 2018 .....	4
	Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the three and nine months ended September 30, 2019 and 2018 (unaudited) .....	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 (unaudited) .....	6
	Notes to Condensed Consolidated Financial Statements (unaudited) .....	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk .....	26
Item 4.	Controls and Procedures .....	27

**PART II - OTHER INFORMATION**

Item 1.	Legal Proceedings .....	28
Item 1A.	Risk Factors .....	28
Item 6.	Exhibits .....	32

**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Cool Holdings, Inc.**

**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**(Amounts in thousands, except per share data)**  
**(unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Net sales</b>	\$ 7,057	\$ 5,378	\$ 17,211	\$ 15,682
<b>Cost of sales</b>	5,087	4,153	12,695	12,366
<b>Gross profit</b>	1,970	1,225	4,516	3,316
<b>Selling, general and administrative expenses</b>	3,903	4,108	13,860	11,217
<b>Operating loss</b>	(1,933)	(2,883)	(9,344)	(7,901)
<b>Other income (expense):</b>				
Interest	(1,479)	(506)	(3,166)	(1,078)
Other income (expense), net	94	509	(77)	991
<b>Loss from continuing operations before provision for income taxes</b>	(3,318)	(2,880)	(12,587)	(7,988)
<b>Provision for income taxes</b>	—	(220)	(1)	(220)
<b>Loss from continuing operations</b>	(3,318)	(3,100)	(12,588)	(8,208)
<b>Loss from discontinued operations</b>	(6)	(631)	(9)	(1,233)
<b>Net loss</b>	<u>\$ (3,324)</u>	<u>\$ (3,731)</u>	<u>\$ (12,597)</u>	<u>\$ (9,441)</u>
<b>Loss per share (basic and diluted):</b>				
<b>Continuing operations</b>	\$ (0.37)	\$ (0.59)	\$ (1.48)	\$ (2.82)
<b>Discontinued operations</b>	(0.00)	(0.12)	(0.00)	(0.42)
<b>Total</b>	<u>\$ (0.37)</u>	<u>\$ (0.71)</u>	<u>\$ (1.48)</u>	<u>\$ (3.24)</u>
<b>Basic and diluted weighted-average number of common shares outstanding</b>	8,949	5,270	8,506	2,909
<b>Comprehensive loss:</b>				
<b>Net loss</b>	\$ (3,324)	\$ (3,731)	\$ (12,597)	\$ (9,441)
Foreign currency translation adjustments	34	—	—	(788)
<b>Comprehensive loss</b>	<u>\$ (3,290)</u>	<u>\$ (3,731)</u>	<u>\$ (12,597)</u>	<u>\$ (10,229)</u>

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

**Cool Holdings, Inc.**

**Condensed Consolidated Balance Sheets**  
(Amounts in thousands, except per share data)

	September 30, 2019 (unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,149	\$ 1,281
Restricted cash	1,196	2,012
Trade accounts receivable, net of allowance for doubtful accounts of \$168 and \$73, respectively	2,206	2,287
Other accounts receivable	1,330	1,262
Inventory	9,493	3,623
Prepaid assets	988	314
Current assets of discontinued operations	524	788
Total current assets	16,886	11,567
Property and equipment, net	1,398	1,009
Operating lease right-of-use assets	7,279	—
Goodwill	984	—
Intangibles, net	2,783	883
Other assets	241	232
Total assets	<u>\$ 29,571</u>	<u>\$ 13,691</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,053	\$ 5,013
Accrued expenses and other current liabilities	6,784	1,555
Notes payable	16,544	4,464
Derivative liability	4,091	—
Current liabilities of discontinued operations	1,832	2,543
Total current liabilities	33,304	13,575
Long-term liabilities:		
Notes payable	2,715	2,873
Operating lease liabilities	5,055	—
Total liabilities	41,074	16,448
Commitments and Contingencies		
Stockholders' deficit:		
Preferred stock, \$0.001 par value, 10,000 shares authorized; 25 and 322 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively.	—	—
Common stock, \$0.001 par value, 150,000 shares authorized; 9,246 and 7,793 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively.	9	8
Additional paid-in capital common stock	39,153	35,303
Accumulated other comprehensive loss	(1,011)	(1,011)
Accumulated deficit	(49,654)	(37,057)
Total stockholders' deficit	(11,503)	(2,757)
Total liabilities and stockholders' deficit	<u>\$ 29,571</u>	<u>\$ 13,691</u>

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

Cool Holdings, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Deficit)  
(Amounts in thousands)  
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
<b>Balance, December 31, 2018</b>	322	\$ —	7,793	\$ 8	\$ 35,303	\$ (1,011)	\$ (37,057)	\$ (2,757)
Debt exchange	—	—	93	—	173	—	—	173
Warrant exercises	—	—	382	—	1,154	—	—	1,154
Foreign currency translation	—	—	—	—	—	(35)	—	(35)
Net loss	—	—	—	—	—	—	(3,659)	(3,659)
<b>Balance, March 31, 2019</b>	322	—	8,268	8	36,630	(1,046)	(40,716)	(5,124)
Stock-based compensation	—	—	681	1	1,749	—	—	1,750
Issuance of warrants and beneficial conversion feature with convertible debt	—	—	—	—	750	—	—	750
Foreign currency translation	—	—	—	—	—	1	—	1
Net loss	—	—	—	—	—	—	(5,614)	(5,614)
<b>Balance, June 30, 2019</b>	322	—	8,949	9	39,129	(1,045)	(46,330)	(8,237)
Stock-based compensation	—	—	—	—	24	—	—	24
Issuance of warrants and beneficial conversion feature with convertible debt	—	—	—	—	—	—	—	—
Conversion of preferred stock to common stock	(297)	—	297	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	34	—	34
Net loss	—	—	—	—	—	—	(3,324)	(3,324)
<b>Balance, September 30, 2019</b>	25	\$ —	9,246	\$ 9	39,153	\$ (1,011)	\$ (49,654)	\$ (11,503)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
<b>Balance, December 31, 2017</b>	4,408	\$ —	5,781	\$ 1	\$ 7,578	\$ (129)	\$ (9,786)	\$ (2,336)
Exchange of shares in connection with reverse merger	(3,644)	—	(3,994)	2	6,181	—	—	6,183
Sale of common stock	—	—	175	—	1,750	—	—	1,750
Foreign currency translation	—	—	—	—	—	(132)	—	(132)
Net loss	—	—	—	—	—	—	(2,766)	(2,766)
<b>Balance, March 31, 2018</b>	764	—	1,962	3	15,509	(261)	(12,552)	2,699
Stock-based compensation	—	—	42	—	200	—	—	200
Sale of common and preferred stock	298	1	885	—	3,584	—	—	3,585
Conversion of preferred stock to common stock	(404)	—	404	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	(656)	—	(656)
Net loss	—	—	—	—	—	—	(2,944)	(2,944)
<b>Balance, June 30, 2018</b>	658	1	3,293	3	19,293	(917)	(15,496)	2,884
3(a)(9) debt exchange	—	—	3,110	3	11,442	—	—	11,445
Unitron option exercise	—	—	625	1	1,790	—	—	1,791
4(a)(2) debt exchange	—	—	290	1	1,023	—	—	1,024
Conversion of preferred stock to common stock	(220)	(1)	220	—	—	—	—	(1)
Exercise of common stock warrants	—	—	81	—	—	—	—	—
Equity grant	—	—	59	—	260	—	—	260
Foreign currency translation	—	—	—	—	—	(63)	—	(63)
Net loss	—	—	—	—	—	—	(3,731)	(3,731)
<b>Balance, September 30, 2018</b>	438	\$ —	7,678	\$ 8	33,808	\$ (980)	\$ (19,227)	\$ 13,609

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

Cool Holdings, Inc.

**Condensed Consolidated Statements of Cash Flows**  
(Amounts in thousands)  
(unaudited)

	For the Nine Months Ended September 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (12,597)	\$ (9,441)
Less: loss from discontinued operations	(9)	(1,233)
Loss from continuing operations	(12,588)	(8,208)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	565	332
Accretion of debt discount	2,133	461
Amortization of operating lease right-of-use assets	942	—
Provision for bad debts	9	58
Stock-based compensation	1,773	270
Loss on debt conversion	9	—
Provision for obsolete inventory	37	235
Mark-to-market of investment security	—	(9)
Loss (gain) on derivative liability	(277)	—
(Increase) decrease in:		
Trade accounts receivable	1,675	5,785
Other accounts receivable	(68)	2,578
Inventory	2,304	(533)
Prepaid assets	(310)	315
Other assets	12	251
(Decrease) increase in:		
Accounts payable	(1,356)	(8,005)
Accrued expenses	2,022	(120)
Operating lease liabilities	(882)	—
Net cash used in continuing operating activities	(4,000)	(6,590)
Net cash provided by (used in) discontinued operating activities	(457)	3,979
Net cash used in operating activities	(4,457)	(2,611)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(24)	(424)
Purchase of investment securities	—	(355)
Cash acquired in reverse merger with Cooltech	23	1,264
Acquisition of Cooltech Canada, net of cash acquired	—	21
Acquisition of Unitron assets, net of cash acquired	—	(1,432)
Acquisition of Simply Mac, net of cash acquired	(4,694)	—
Net cash used in investing activities	(4,695)	(926)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of notes payable, net of debt issuance costs	7,861	3,255
Payment of notes payable	(811)	(2,014)
Subscriptions payable	—	1,220
Sale of common stock, net of offering costs	—	3,585
Proceeds from warrant exercises	1,154	—
Net cash provided by financing activities	8,204	6,046
Effect of exchange rate changes on cash	—	(851)
Net decrease in cash and cash equivalents	(948)	1,658
<b>Cash, cash equivalents and restricted cash, beginning of period</b>	<b>3,293</b>	<b>1,354</b>
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 2,345</b>	<b>\$ 3,012</b>
<b>Cash paid for interest</b>	<b>\$ 341</b>	<b>\$ 144</b>
<b>Cash paid for income taxes</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Non-cash financing activities:</b>		
Conversion of accounts payable to equity	\$ 164	\$ —
Record operating lease right-of-use assets and operating lease liabilities	\$ 4,642	\$ —

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

## Cool Holdings, Inc.

### Notes to Condensed Consolidated Financial Statements September 30, 2019 (unaudited)

#### NOTE 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and these condensed notes have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results are likely to differ from those estimates, but management does not believe such differences will materially affect the financial position or results of operations of Cool Holdings, Inc., formerly known as InfoSonics Corporation (the “Company”), although they may. These unaudited consolidated financial statements and condensed notes should be read in conjunction with the financial statements and notes as of and for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K for such year.

On March 12, 2018, pursuant to an Agreement and Plan of Merger (as amended “Merger Agreement”) by and among the Company, Cooltech Holding Corp. (“Cooltech”), and the Company’s wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. (“Merger Sub”), Cooltech merged with and into Merger Sub (the “Merger”), with Cooltech surviving as a wholly-owned subsidiary of the Company. As discussed in Note 18, because of the change of control that resulted from the Merger, it was treated as a reverse merger with Cooltech deemed to be acquiring InfoSonics for accounting purposes. Therefore, the Company’s historical financial statements prior to the Merger reflect those of Cooltech.

During the fourth quarter of 2018, the Company completed the closure of the verykool business segment that had been the legacy business of InfoSonics prior to the Merger. The historical results of the verykool segment are reported as discontinued operations in the unaudited financial statements for all periods from the merger through September 30, 2019.

On September 25, 2019, the Company completed the acquisition of Simply Mac, Inc. (“Simply Mac”) in a stock transaction, after which Simply Mac became a wholly-owned subsidiary of the Company (see Note 21). Consequently, the results of Simply Mac for the period subsequent to the acquisition are included in the Company’s September 30, 2019 consolidated financial statements. Simply Mac operates on a 52-53 fiscal year ending on the Saturday closest to January 31<sup>st</sup>. Simply Mac’s fiscal September ended on October 5, 2019, and its results for the period from September 26<sup>th</sup> through October 5<sup>th</sup> are consolidated into the Company’s financial statements.

The Company’s consolidated financial statements include assets, liabilities and operating results of its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, these unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly present the Company’s financial condition as of September 30, 2019, and the results of operations, financial position and cash flows for all periods presented. The results reported in these consolidated financial statements for the three and nine months ended September 30, 2019 are not necessarily indicative of the operating results, financial condition or cash flows that may be expected for the full fiscal year of 2019 or for any future period.

At September 30, 2019, six of the Company’s sixteen OneClick retail stores were located in Argentina. The inflation rate in Argentina increased dramatically in the latter part of 2017 and the first quarter of 2018. On May 16, 2018, the Center for Audit Quality in the United States categorized Argentina as an economy with a projected three-year cumulative inflation rate greater than 100%. As a consequence, beginning July 1, 2018, the Company has transitioned its Argentine operations to “highly inflationary” status which requires the Company to record foreign exchange gains or losses in the Argentine peso through its income statement rather than through the other comprehensive loss account on its balance sheet.

#### NOTE 2: Going Concern Considerations

In accordance with the guidance issued by the FASB under ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, the Company is required to evaluate each reporting period whether there is substantial doubt about its ability to continue as a going concern. In evaluating the Company’s ability to continue as a going concern, management considered the conditions and events that could raise substantial doubt about the Company’s ability to continue as a going concern for 12 months following the date the Company’s

financial statements are issued. Management considered the Company's current financial condition and liquidity sources, including current funds and available working capital, forecasted future cash flows and the Company's conditional and unconditional obligations due within one year from the date of issuance of the financial statements. Because the Company has sustained significant losses over the past two years and its total liabilities exceed its total assets, management has substantial doubt that the Company could remain independent and continue as a going concern for the required period of time if it were not able to refinance or restructure its existing debt and raise additional capital to fund its working capital needs. These consolidated financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

### **NOTE 3. Stock-Based Compensation**

The Company's 2015 Equity Incentive Plan ("2015 Plan") was approved by our stockholders. The 2015 Plan is an omnibus plan that allows for grants of stock options, stock appreciation rights, stock awards, restricted stock, stock units and performance units. As of September 30, 2019, options to purchase 2,000 shares were outstanding under the 2015 Plan and 5,000 shares were available for future grant.

The Company's stock options typically vest on an annual or a monthly basis. Stock options generally are exercisable for up to seven years after grant, subject to continued employment or service. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Such amount may change as a result of additional grants, forfeitures, modifications in assumptions and other factors. Income tax effects of share-based payments are recognized in the financial statements for those awards which will normally result in tax deductions under existing tax law. During the three and nine months ended September 30, 2019 and 2018, the Company recorded no compensation expense related to options previously granted. Under current U.S. federal tax law, the Company receives a compensation expense deduction related to non-qualified stock options only when those options are exercised and vested shares are received. Accordingly, the financial statement recognition of compensation expense for non-qualified stock options creates a deductible temporary difference that results in a deferred tax asset and a corresponding deferred tax benefit in our consolidated statements of operations.

During the three and nine months ended September 30, 2019 and 2018, the Company did not grant any stock options. As of September 30, 2019, because all outstanding stock options were fully vested, there was no unrecognized compensation expense.

As of September 30, 2019, the 2,000 fully-vested and exercisable stock options then outstanding had a weighted average exercise price of \$34.54 per share and a weighted average remaining contractual life of 2.63 years.

During the quarter ended June 30, 2018, the Company granted a restricted stock award of 42,000 shares with 17,000 shares vesting on the date of grant and the remaining 25,000 shares vesting in four equal installments on the last day of each calendar quarter beginning June 30, 2018. The total value of the award was \$200,000, and stock-based compensation expense for the final quarter of vesting ending March 31, 2019 was \$30,000.

During the quarter ended June 30, 2019, the Company made stock grants to directors and employees aggregating 600,000 shares valued at \$1,560,000. In addition, restricted stock grants on 100,000 shares valued at \$260,000 were made to employees with annual vesting over 2 years from the date of grant. Also in June 2019, in connection with the Company's termination of its then chief financial officer, the Company accelerated the vesting on 26,667 restricted shares valued at \$69,000 and paid a portion of his severance using 53,571 shares valued at \$108,000. Total stock-based compensation expense during the quarters ended June 30, 2019 and September 30, 2019 amounted to \$1,750,000 and \$24,000, respectively.

### **NOTE 4. Earnings Per Share**

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential additional common shares that were dilutive had been issued. Common share equivalents are excluded from the computation if their effect is anti-dilutive. The Company's common share equivalents consist of convertible preferred stock, stock options and warrants.



Common shares from the potential exercise of certain options and warrants are excluded from the computation of diluted earnings (loss) per share if their exercise prices are greater than the Company's average stock price for the period. For the three and nine-month periods ended September 30, 2019, the number of such shares excluded was 5,691,000 and 5,598,000, respectively. For both the three and nine-month periods ended September 30, 2018, the number of such shares excluded was 164,000. For the three and nine-month periods ended September 30, 2019, the number of in-the-money warrants and preferred shares excluded from the computation of net loss per share because their inclusion would have been anti-dilutive amounted to 25,000 and 118,000, respectively. For both the three and nine-month periods ended September 30, 2018, the number of in-the-money warrants and preferred shares excluded from the computation of net loss per share amounted to 5,021,000.

All share and per share numbers in this report have been retroactively restated for the Company's reverse stock split effected in March 2018.

#### NOTE 5. Income Taxes

The Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with applicable standards of the Financial Accounting Standards Board ("FASB"). In this regard, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, the Company concluded that at this time there are no uncertain tax positions, and there has been no cumulative effect on retained deficit.

The Company is subject to U.S. federal income tax as well as income tax in multiple states and foreign jurisdictions. For all major taxing jurisdictions, the tax years 2014 through 2018 remain open to examination or re-examination. As of September 30, 2019, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

The Company recognizes the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact the Company's financial position or results of operations.

#### NOTE 6. Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value and consists primarily of consumer electronics and accessories. The Company writes down its inventory to net realizable value when it is estimated to be slow-moving or obsolete. As of September 30, 2019 and December 31, 2018, inventory was net of write-downs of \$387,000 and \$351,000, respectively.

#### NOTE 7. Property and Equipment

Property and equipment are primarily located in the United States, Argentina and the Dominican Republic and consisted of the following as of the dates presented (in thousands):

	September 30, 2019 (unaudited)	December 31, 2018
Vehicles	\$ 48	\$ 48
Machinery and equipment	273	146
Furniture and fixtures	343	122
Leasehold improvements	1,513	1,100
Subtotal	2,177	1,416
Less accumulated depreciation	(779)	(407)
Total	<u>\$ 1,398</u>	<u>\$ 1,009</u>

Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2019 was \$140,000 and \$374,000, respectively. Depreciation and amortization expense for the three and nine months ended September 30, 2018 was \$51,000 and \$140,000, respectively.

## NOTE 8. Intangible Assets

The Company's definite-lived intangible assets arose from the acquisition of OneClick. These assets and related accumulated amortization consisted of the following as of the dates presented (in thousands):

	September 30, 2019 (unaudited)	December 31, 2018
Tradenames - OneClick	\$ 938	\$ 938
Tradenames - Simply Mac	2,092	—
Covenants Not To Compete	258	258
Domain Name	2	2
Subtotal	3,290	1,198
Less accumulated amortization	(507)	(315)
Total	<u>\$ 2,783</u>	<u>\$ 883</u>

Amortization expense for the three and nine months ended September 30, 2019 amounted to \$65,000 and \$191,000, respectively. Amortization expense for the three and nine months ended September 30, 2018 amounted to \$63,000 and \$189,000, respectively. The OneClick trade name is being amortized over 60 months and the covenants not to compete are being amortized over 48 months. Amortization expense for these two assets for the years ending December 31, 2019 (remaining 3 months) through 2022 will be \$63,000, \$252,000, \$236,000 and \$143,000. The Simply Mac trade name is being amortized over 15 years at the rate of \$139,000 per year.

## NOTE 9. Accrued Expenses and Other Current Liabilities

As of September 30, 2019 and December 31, 2018, accrued expenses and other current liabilities consisted of the following (in thousands):

	September 30, 2019 (unaudited)	December 31, 2018
Accrued compensation (wages, benefits, severance, vacation)	\$ 1,526	\$ 697
Customer deposits and overpayments	113	31
Accrued product costs	177	—
Accrued interest	944	170
Accrued taxes	93	406
Deferred revenue	242	—
Current portion of operating lease liabilities	2,300	—
Other accruals	1,389	251
Total	<u>\$ 6,784</u>	<u>\$ 1,555</u>

## NOTE 10. Notes Payable

Notes payable consisted of the following as of the dates presented (in thousands):

	September 30, 2019 (unaudited)	December 31, 2018
8% secured promissory notes due August 2018	\$ —	\$ 250
0% convertible notes due January 2021	275	275
4% promissory note due April 2021	704	847
0% promissory note due April 2019	—	418
8% promissory note due March 2021	2,107	2,107
12% convertible notes due October 2019	4,000	4,000
12% convertible notes due November 2019	1,220	1,220
12% convertible notes due May 2020	3,500	—
12% convertible notes due July 2020	350	—
12% convertible notes due August 2020	350	—
12% convertible notes due September 2020	3,851	—
12% secured promissory note due September 2020	7,858	—
Total face amount	24,215	9,117
Unamortized discount	(4,956)	(1,780)
Total carrying value	19,259	7,337
Amount classified as current	16,544	4,464
Amount classified as long-term	\$ 2,715	\$ 2,873

In August 2017, the Company issued a \$250,000 secured promissory note with a 1-year term bearing interest at 8%. The \$250,000 note was not paid upon maturity, and went into default. Upon agreement with the holder, the note was paid in full, including additional default interest on February 14, 2019.

In January 2018, the Company issued an aggregate of \$1,000,000 of 3-year 0% convertible notes and warrants. The notes are convertible into an aggregate of 570,287 shares of common stock of the Company and the warrants are exercisable for 570,287 shares of common stock of the Company at an exercise price of \$9.15 per share. The Company valued the debt and the warrants in accordance with ASC 470-20-25-2 using a binomial option pricing model for the warrants, and the conversion feature, which was determined to be a Beneficial Conversion Feature, was recorded at fair value based on the difference between the closing market price of the Company's stock on the date of the transaction and the implied conversion price in the fair value of the debt. The valuation assumed a 105% volatility rate of the Company's common stock, a risk-free interest rate of 2.20% and a credit spread of 7.70%. The warrants were assigned a value of \$127,000 and the conversion feature was assigned a value of \$144,000. The remaining value of \$729,000 was assigned to the debt. The aggregate discount of \$271,000 is being amortized to interest expense over the 3-year life of the notes on a straight-line basis. In connection with the debt exchange on August 15, 2018, holders of an aggregate principal amount of \$725,000 of the notes converted their notes to common stock, leaving a principal balance of \$275,000 outstanding. The unamortized discount related to the converted notes amounted to \$163,000, which amount was recorded as accretion expense in the period. Accretion of the discount for the three and nine months ended September 30, 2019 amounted to \$6,000 and \$18,000, respectively.

In April 2018, the Company issued a \$1,000,000 installment note bearing interest at 4.02% per annum due April 30, 2021. The principal balance outstanding on the note at September 30, 2019 was \$704,000. The note specifies varying monthly payments of principal and interest with annual principal payments of \$305,000, \$359,000 and \$183,000 in 2019 through 2021.

In August 2018, in connection with the Unitron acquisition, the Company assumed the remaining balance of \$868,000 on 0% promissory notes with \$450,000 paid in October 2018 and \$418,000 paid in April 2019.

In September 2018, the Company entered into a Note Consolidation Agreement with a lender in which 12 promissory notes and associated accrued interest were consolidated into single unsecured 8% promissory note in the principal amount of \$2,107,000. The note is due in a lump sum on March 31, 2021. Interest compounds annually. Because the present value of the cash flows under the terms of the new debt instrument was less than 10% different from the present value of the aggregate remaining cash flows under the terms of the original instruments, the debt instruments were not considered to be substantially different and the transaction was not considered a debt extinguishment.

In October 2018, the Company issued an aggregate of \$4,000,000 of 1-year 12% convertible notes and warrants. The notes are convertible at the option of the holder after six months from the date of issuance into an aggregate of 941,181 shares of common stock of the Company and the warrants are exercisable for 470,592 shares of common stock of the Company at an exercise price of \$4.25 per share. The Company valued the debt and the warrants in accordance with ASC 470-20-25-2 using a binomial option pricing model for the warrants, and the conversion feature, which was determined to be a Beneficial Conversion Feature, was recorded at fair value based on the difference between the closing market price of the Company's stock on the date of the transaction and the implied conversion price in the fair value of the debt. The valuation assumed a 90% volatility rate of the Company's common stock, a 25% discount on the value of the underlying stock due to trading restrictions, and a risk-free interest rate of 2.47%. The warrants were assigned a value of \$769,000 and the conversion feature was assigned a value of \$1,173,000. The remaining value of \$2,058,000 was assigned to the debt. The aggregate discount of \$1,942,000 is being amortized to interest expense over the 1-year life of the notes on a straight-line basis, which approximates the effective interest method. Accretion of the discount for the three and nine months ended September 30, 2019 amounted to \$485,000 and \$1,456,000, respectively.

In November 2018, the Company issued an aggregate of \$1,220,000 of 1-year 12% convertible notes and warrants. The notes are convertible at the option of the holder after six months from the date of issuance into an aggregate of 277,274 shares of common stock of the Company and the warrants are exercisable for 138,638 shares of common stock of the Company at an exercise price of \$4.40 per share. The Company valued the debt and the warrants in accordance with ASC 470-20-25-2 using a binomial option pricing model for the warrants. The conversion feature was not assigned any value as the implied conversion price in the fair value of the debt was higher than the closing market price of the Company's stock on the date of the transaction. The valuation assumed a 90% volatility rate of the Company's common stock, a 25% discount on the value of the underlying stock due to trading restrictions, and a risk-free interest rate of 2.52%. The warrants were assigned a value of \$118,000 and the remaining value of \$1,102,000 was assigned to the debt. The discount of \$118,000 is being amortized to interest expense over the 1-year life of the notes on a straight-line basis. Accretion of the discount for the three and nine months ended September 30, 2019 amounted to \$29,000 and \$88,000, respectively.

In May 2019, the Company issued an aggregate of \$3,500,000 of 1-year 12% convertible notes and warrants. The notes are convertible at the option of the holder after six months from the date of issuance into an aggregate of 1,258,996 shares of common stock of the Company and the warrants are exercisable for 629,500 shares of common stock of the Company at an exercise price of \$2.72 per share. The Company valued the debt and the warrants in accordance with ASC 470-20-25-2 using a binomial option pricing model for the warrants, and the conversion feature, which was determined to be a Beneficial Conversion Feature, was recorded at fair value based on the difference between the closing market price of the Company's stock on the date of the transaction and the implied conversion price in the fair value of the debt. The valuation assumed a 105% volatility rate of the Company's common stock, a 30% discount on the value of the underlying stock due to trading restrictions, and a risk-free interest rate of 2.33%. The warrants were assigned a value of \$507,000 and the conversion feature was assigned a value of \$243,000. In addition, the Company incurred fundraising costs of \$190,000, which were recorded as an additional discount. The remaining value of \$2,750,000 was assigned to the debt. The aggregate discount of \$940,000 is being amortized to interest expense over the 1-year life of the notes on a straight-line basis, which approximates the effective interest method. Accretion of the discount for the three and nine months ended September 30, 2019 amounted to \$235,000 and \$352,000, respectively.

In July, August and September 2019, the Company issued a number of tranches of 1-year 12% convertible notes and warrants with an aggregate principal amount of \$4,551,000. The notes and warrants are convertible/exercisable at the option of the holders into the Company's shares of common stock at any time during their respective exercisability period commencing on the date the Company obtains shareholder or other required regulatory approvals to permit the conversion of the notes (the "Approval Date"). The funds raised from the issuance of these notes were used to finance the acquisition of Simply Mac. At the time of issuance of the notes, both the note conversion prices and the warrant exercise prices were structured to be a discount to the current market price of the Company's stock, certain notes at a 20% discount to the 5-day closing average price and others at a 30% discount to the 2-day volume weighted average price. However, in order to issue the convertible notes and warrants below market, shareholder approval was required according to Nasdaq rules to which the Company was subject at the time. Consequently, the trigger date for the conversion and warrant pricing was set as the Approval Date. In accordance with ASC 815, the conversion options embedded in the respective notes meet the criteria of a derivative instrument liability and are bifurcated from the host debt contract. Similarly, the warrants meet the criteria of a freestanding derivative instrument liability. Accordingly, the notes and warrants are recorded at fair value as of the respective issuance dates and marked-to-market at subsequent reporting dates with the changes recorded as gains or losses. Based on facts and circumstances as of the respective measurement dates, a *Monte-Carlo* simulation, a continuous stochastic-process of randomly generating values for uncertain variables, was utilized in determining the fair value of the notes and warrants. This valuation methodology provides the ability and flexibility of capturing the variability and uncertainty underlying the instruments' unique conditions, features, and terms. The valuations assumed a 70% expected annualized equity volatility rate of the Company's common stock. Determination of this rate began with the full-observed historical volatility of the stock dating back to March 2018, immediately following the announcement of completion of the Cooltech merger and related stock split. It was noted that the Company did not have any exchange-traded options since the merger from which to obtain an implied volatility. Certain adjustments were then applied to the full-observed historical volatility in the form of excluding the effects of the Company's extraordinary-significant announcements and events during such period and capturing market participants' views of pricing convertible notes (compared to own non-convertible debt with similar maturity or publicly-traded comparable debt issuances) and illiquid shares and

warrants. Considering the utilization of unobservable inputs, as defined by ASC 820, the fair value of the notes and warrants as of the respective issuance dates and at September 30, 2019 are level 3 measurements. As a result of the valuation methodology, the conversion feature was assigned a value of \$2,471,000 and the warrants were assigned a value of \$1,897,000. The remaining value of \$182,000 was assigned to the debt. The aggregate discount of \$4,368,000 is being amortized to interest expense over the 1-year life of the notes on a straight-line basis, which approximates the effective interest method. Accretion of the discount for the three months ended September 30, 2019 amounted to \$217,000. As noted above, the \$4,368,000 discount was recorded as a derivative liability on the Company's balance sheet, which amount was marked-to-market at September 30, 2019. At that date, the fair market value of the derivative liability amounted to \$4,091,000, which represented a \$277,000 decrease in the liability that was recorded as other income in the Company's financial statements.

On September 25, 2019, in connection with the Company's acquisition of Simply Mac from GameStop Corp. ("GameStop"), the Company issued a 12% secured promissory note to GameStop in the amount of \$7,858,000 representing a portion of the purchase price for Simply Mac. The principal of the note is due in four equal installments on each 3-month anniversary of the note, with accrued interest payable on each installment date. In addition, in the event that after the payment of any installment, the remaining principal balance of the note is greater than 65% of the value of Simply Mac's inventory, then an additional payment will be required to reduce the principal balance down to the 65% level. The note is secured by the inventory, receivables and other financial assets of the Company and all of its wholly-owned subsidiaries, and contains other restrictive covenants.

Interest expense for notes payable for the three and nine months ended September 30, 2019 amounted to \$1,331,000 and \$2,959,000, respectively. Interest expense for notes payable for the three and nine months ended September 30, 2018 amounted to \$506,000 and \$1,028,000, respectively.

#### **NOTE 11. Capital Stock**

On January 9, 2019, the Company entered into a fee settlement agreement with a vendor to whom it owed \$164,000. In the agreement, the parties agreed to satisfy this obligation by the Company issuing to the vendor 93,448 restricted common shares and warrants to purchase 93,448 common shares at \$1.64 per share. The warrants are exercisable beginning July 9, 2019 and expire January 9, 2022. The fair value of the restricted stock on the date of issuance was estimated to be \$114,000 using a 25% discount for trading restrictions computed using a risk-free interest rate of 2.52% for the 6-month hold period and an expected volatility of 90% based on the Company's historical stock price fluctuation. The fair value of the warrants was estimated on the date of issuance at \$59,000 using the Black-Scholes pricing model and assuming a 90% volatility rate and a risk-free interest rate of 2.54% based on the 3-year U.S. Treasury rate then in effect. The combined value of the stock and warrants was \$173,000, and the Company recorded a loss on extinguishment of debt of \$9,000.

During March 2019, holders of warrants on 382,165 shares of the Company's common stock exercised the warrants at the strike price of \$3.02 per share, which resulted in aggregate cash proceeds to the Company of \$1,154,000.

On September 30, 2019, the holder of 297,000 shares of preferred stock converted the shares into an equal number of shares of common stock.

#### **NOTE 12. Related Party Transactions**

During the three and nine months ended September 30, 2019 and 2018, the Company was engaged in non-arm's length transactions with Smash Technologies, LLC ("Smash"), a reseller of accessories controlled by a family member of the Company's CEO who was terminated on June 5, 2019. The Company purchased products from Smash in the normal course of business, which purchases were measured at the exchange amount. During the nine months ended September 30, 2019, product purchases from Smash amounted to \$0, and \$82,000, respectively. During the three and nine months ended September 30, 2018, product purchases from Smash amounted to \$74,000 and \$272,000, respectively. There are no long-term arrangements with Smash, and, subsequent to June 5, 2019 it is no longer considered a related party.

#### **NOTE 13. Recent Accounting Pronouncements**

##### ***Recently Adopted:***

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The guidance in ASU 2016-02 and subsequently issued amendments required lessees to capitalize virtually all leases with terms of more than twelve months on the balance sheet as a right-of-use asset and recognize an associated lease liability. Entities were allowed to apply the modified retrospective approach (1) retrospectively to each comparative period presented (comparative method) or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment (effective date method). ASU 2016-02 was effective for public companies for interim and annual reporting periods beginning after December 15, 2018. The Company adopted the new standard on January 1, 2019 using

the effective date method. Therefore, upon adoption, the Company recognized and measured leases without revising comparative period information or disclosures. The Company implemented the transition package of three practical expedients permitted within the standard, which among other things, allows for the carryforward of historical lease classifications. As a result of adopting the new standard on January 1, 2019, the Company recorded initial right-of-use assets of \$4,642,000 with a corresponding initial lease liability, which was also adjusted by reclassifications of existing assets and liabilities primarily related to deferred rent. The adoption of this new standard did not have a material impact on the Company's consolidated results of operations or cash flows.

The Company enters into leases primarily for its retail stores, distribution center and corporate offices. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and lease expense for such leases are recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease at inception and whether the lease meets the classification criteria of a finance or operating lease. The Company currently has no financing leases. Lease-related assets, or right-of-use assets, are recognized at the lease commencement date at amounts equal to the respective lease liabilities. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using the Company's incremental borrowing rates. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

Where lease agreements contain renewal options, the Company does not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that the Company is reasonably certain of renewing the lease at inception or when a triggering event occurs. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain to be exercised. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating lease expense for the three and nine months ended September 30, 2019 amounted to \$387,000 and \$1,078,000, respectively.

Supplemental lease information as of September 30, 2019 is as follows (\$ in thousands):

Operating right of use assets	\$	7,279
Current operating lease liabilities	\$	2,300
Long-term operating lease liabilities	\$	5,055
Weighted-average remaining lease term in years		4.68
Weighted-average discount rate		12%

As of September 30, 2019, maturities of lease liabilities are as follows (in thousands):

<u>Years Ending December 31,</u>	
2019 (remaining three months)	\$ 765
2020	2,909
2021	2,123
2022	1,222
2023	939
Thereafter	1,387
Total lease payments	9,345
Less: interest	1,990
Total	7,355
Less: current portion	2,300
Long-term portion	<u>\$ 5,055</u>

As of September 30, 2019, the Company had no material operating leases that had not yet commenced.

***Issued (Not adopted yet):***

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The purpose of this ASU is to reduce the cost and complexity of evaluating goodwill for impairment. It eliminates the need for entities to calculate the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its

assets and liabilities as if that reporting unit had been acquired in a business combination. Under this ASU, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, however, we have chosen not to do so. The amendment will not have a material impact on our consolidated financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement," which removes, adds and modifies certain disclosure requirements for fair value measurements in Topic 820. ASU 2018-13 removes the following disclosure requirements: (i) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and (ii) the entity's valuation processes for Level 3 fair value measurements. ASU 2018-13 adds the following disclosure requirements: (i) provide information about the measurement uncertainty of Level 3 fair value measurements as of the reporting date rather than a point in the future, (ii) disclose changes in unrealized gains and losses related to Level 3 measurements for the period included in other comprehensive income, and (iii) disclose for Level 3 measurements the range and weighted average of the significant unobservable inputs and the way it is calculated. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. We do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements other than additional disclosure requirements.

Other Accounting Standards Updates not effective until after September 30, 2019 are not expected to have a material effect on the Company's financial position or results of operations.

#### NOTE 14. Segments

The tables below (in thousands) reflect the operating results of the Company's segments for the reported periods, consistent with the management and measurement system utilized within the Company. The three segments include (1) the Company's OneClick retail stores, (2) its Simply Mac retail stores and (3) its Cooltech Distribution business. Performance measurement of each segment is based on sales, gross profit and operating income (loss). Simply Mac is a new segment that was added effective with the Company's September 25, 2019 acquisition of Simply Mac. Total assets of the Simply Mac segment at September 30, 2019 were \$18,255,000, which amount included \$984,000 of goodwill. The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the Chief Operating Decision Maker ("CODM") in determining how to allocate Company resources and evaluate performance. The CODM is a group of Company executives who comprise the management committee, consisting of the Company's Chief Executive Officer and its Chief Financial Officer.

	OneClick Retail Stores	Simply Mac Retail Stores	Cooltech Distribution	Total Segments
<b>Three months ended September 30, 2019:</b>				
Net sales	\$ 4,681	\$ 1,924	\$ 452	\$ 7,057
Gross profit	\$ 1,241	\$ 677	\$ 52	\$ 1,970
Operating loss	\$ (303)	\$ (247)	\$ (225)	\$ (775)
<b>Three months ended September 30, 2018:</b>				
Net sales	\$ 3,685	\$ —	\$ 1,693	\$ 5,378
Gross profit	\$ 1,088	\$ —	\$ 137	\$ 1,225
Operating loss	\$ (496)	\$ —	\$ (364)	\$ (860)

#### Reconciliation of Operating Loss to Cool Holdings as Reported:

	Three Months Ended September 30,	
	2019	2018
<b>Operating loss:</b>		
Total reportable segments	\$ (775)	\$ (860)
Unallocated expenses	(1,158)	(2,023)
Total consolidated operating loss	<u>\$ (1,933)</u>	<u>\$ (2,883)</u>

	OneClick Retail Stores	Simply Mac Retail Stores	Cooltech Distribution	Total Segments
<b>Nine months ended September 30, 2019:</b>				
Net sales	\$ 13,380	\$ 1,924	\$ 1,907	\$ 17,211
Gross profit	\$ 3,794	\$ 677	\$ 45	\$ 4,516
Operating loss	\$ (1,678)	\$ (247)	\$ (922)	\$ (2,847)

<b>Nine months ended September 30, 2018:</b>				
Net sales	\$ 9,329	\$ —	\$ 6,353	\$ 15,682
Gross profit	\$ 2,738	\$ —	\$ 578	\$ 3,316
Operating loss	\$ (2,505)	\$ —	\$ (952)	\$ (3,457)

**Reconciliation of Operating Loss to Cool Holdings as Reported:**

	Nine Months Ended September 30,	
	2019	2018
<b>Operating loss:</b>		
Total reportable segments	\$ (2,847)	\$ (3,457)
Unallocated expenses	(6,497)	(4,444)
Total consolidated operating loss	<u>\$ (9,344)</u>	<u>\$ (7,901)</u>

**NOTE 15. Geographic Information**

Long-lived assets are principally located in Company facilities in the United States, Argentina and the Dominican Republic. The unaudited net sales by geographical area for the three and six months ended June 30, 2019 and 2018 were (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Central America	\$ —	\$ 153	\$ 27	\$ 573
South America	1,874	1,941	6,045	6,116
Caribbean	1,083	1,166	2,982	2,729
United States	4,100	2,118	8,157	6,264
Total	<u>\$ 7,057</u>	<u>\$ 5,378</u>	<u>\$ 17,211</u>	<u>\$ 15,682</u>

**NOTE 16. Commitments and Contingencies**

The Company has in the past and may in the future become involved in certain legal proceedings and claims which arise in the normal course of business. As of the filing date of this report, the Company did not have any significant litigation outstanding.

**NOTE 17. Fair Value of Financial Instruments**

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. When available, the Company uses quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently-sourced market parameters. If market observable inputs for model-based valuation techniques are not available, the Company makes judgments about assumptions market participants would use in estimating the fair value of the financial instrument. Carrying values of cash, cash equivalents, restricted cash, trade and other accounts receivable, prepaid assets, accounts payable, accrued expenses and other current liabilities and short-term notes payable approximate their fair values due to the short-term nature and liquidity of these financial instruments. The Company estimates that the fair value of its long-term debt approximates its carrying value based on significant level 2 observable inputs. During the three and nine months ended September 30, 2019 and 2018, the Company did not record any material nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition.



## **NOTE 18. Merger with Cooltech**

On July 25, 2017, the Company entered into an Agreement and Plan of Merger (as amended “Merger Agreement”) by and among the Company, Cooltech Holding Corp., and the Company’s wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. (“Merger Sub”), pursuant to which Cooltech would merge with and into the Merger Sub, with Cooltech surviving as a wholly-owned subsidiary of the Company. After approval by the Company’s stockholders at a Special Meeting held on March 7, 2018, the Merger closed on March 12, 2018. The Merger involved a series of transactions and events as described below.

On August 2, 2017, the Company sold 100,000 shares of common stock at \$10.00 per share in a public offering and the concurrent private placement of warrants to purchase 100,000 shares of common stock at \$12.10 per share to investors related to Cooltech. Proceeds from these offerings were used by the Company to pay expenses of the Merger.

On August 3, 2017, the Company entered into a stock purchase agreement for the private placement of 175,000 shares of common stock at a purchase price of \$10.00 per share and warrants to purchase 175,000 shares of common stock at \$12.10 per share (the “Private Placement”) to investors related to Cooltech. The aggregate purchase price of \$1,750,000 was placed into escrow and closing of the offering was contingent upon approval of such transaction by the Company’s stockholders.

On October 10, 2017, the Company effected a one-for-five reverse stock split of its common stock in order to regain compliance with the minimum bid price rule of Nasdaq. On October 25, 2017, Nasdaq notified the Company that it had regained compliance.

The original Merger Agreement contemplated that the Merger consideration would be 2,500,000 shares of the Company’s common stock. However, in late December 2017 it was determined that Cooltech would be unable to obtain the audited financial statements required by the SEC for an entity that it had acquired in October 2017. The entity, Unitron del Caribe S.A. (“Unitron”), is a company operating OneClick stores in the Dominican Republic. Consequently, it was determined that the acquisition would be unwound and the Merger Agreement was amended to reduce the merger consideration by 25%, or 625,000 shares, to 1,875,000 shares. On January 5, 2018, Cooltech and the seller of Unitron entered into a settlement agreement to unwind the transaction pursuant to which Cooltech agreed to return to the Seller the assets of Unitron on an as-is where-is basis (the “Unitron Assets”), and the Seller agreed to return an aggregate sum of \$4,568,000. Concurrently, Cooltech entered into an option agreement (the “Option Agreement”) pursuant to which it was granted the sole, exclusive and irrevocable right and option to acquire the Unitron Assets (the “Option”). The Option was exercisable during the period of time beginning March 12, 2018, the effective date of the Merger, and ending on January 5, 2019 (the “Option Period”), unless sooner terminated or extended in accordance with the terms of the Agreement. Upon exercise of the Option, and in consideration for receipt of the Unitron Assets, Cooltech shall pay an aggregate sum of \$4,568,000, subject to adjustment as set forth therein, in the form of cancellation of certain indebtedness owed to Cooltech by the grantor of the Option and assumption of certain liabilities of Unitron. Also, shareholders of Cooltech shall receive an aggregate of 625,000 shares of InfoSonics common stock (including securities convertible into common stock), provided all necessary approvals as set forth in the Merger Agreement were obtained.

On January 19, 2018, the Company sold \$1 million of three-year 0% convertible notes and warrants to investors related to Cooltech. The notes are convertible into an aggregate of 114,285 shares of common stock and the warrants are exercisable for 114,285 shares of common stock at an exercise price of \$9.15 per share. The warrants are exercisable commencing July 19, 2018 and have a term of exercise equal to three years. Proceeds from these sales were used by the Company to pay expenses of the Merger and for general corporate purposes.

On March 9, 2018, the Company effected a second one-for-five reverse stock split of its common stock in order to achieve the \$4.00 Nasdaq minimum bid price required for an initial listing necessitated by the change of control caused by the Merger.

On March 12, 2018, both the Private Placement and the Merger closed. The Company issued 175,000 common shares and warrants contemplated by the Private Placement and an aggregate of 1,875,000 shares of its common and preferred stock for all of the outstanding capital stock of Cooltech. Although InfoSonics was the legal acquirer of Cooltech in the Merger, for accounting purposes, Cooltech was considered to be acquiring InfoSonics. Cooltech was determined to be the “accounting acquirer” because after the Merger and above described related transactions: (i) stockholders related to Cooltech own 2,150,000 shares of InfoSonics common stock plus warrants on approximately 389,000 additional shares, which together gives them approximately 82% of the common shares of the Company on a fully-diluted basis, (ii) Cooltech directors now hold a majority of board seats in the combined organization and (iii) Cooltech management hold all key executive management positions in the Company. Consequently, in accordance with the provisions of Accounting Standards Codification Topic 805, “Business Combinations” (“ASC 805”), the Merger has been accounted for as a reverse acquisition using the acquisition method of accounting. Accordingly, Cooltech’s historical financial information replaces InfoSonics’ historical financial information for all periods prior to the Merger.

Because the Merger involved only the exchange of equity and Cooltech is a private company whose value was difficult to measure, the fair value of the equity of InfoSonics immediately before the Merger was used to measure consideration transferred because it has a quoted market price. The closing market price per share of the Company's stock on March 12, 2018, the date of the Merger closing, was \$8.15. Using this price, the total fair value of the Merger consideration amounted to approximately \$6.15 million. This amount is comprised of two elements: (1) \$5.5 million representing the value of the 675,656 outstanding shares of InfoSonics common stock at \$8.15/share, and (2) \$676,000 representing the value of outstanding stock warrants and options. The purchase price was allocated to the net assets acquired in the transaction is as follows (in thousands):

Cash	\$	1,264
Accounts receivable		2,692
Inventory		3,190
Prepaid assets		1,454
Fixed assets		58
Goodwill		3,343
Other assets		28
Accounts payable		(2,744)
Accrued expenses		(2,396)
Long-term convertible debt		(735)
Total	\$	<u>6,154</u>

#### **NOTE 19. Acquisition of Cooltech Corp.**

On June 1, 2018, the Company exercised an option to acquire all of the outstanding stock of a Canadian shell company called Cooltech Corp. for \$1.00. At the time of the acquisition, Cooltech Corp. had \$21,000 in cash and \$21,000 of accounts payable, plus entitlement to a pending claim in an intellectual property lawsuit. Subsequent to the acquisition, the company recognized a \$1,277,000 gain on the pending claim.

#### **NOTE 20. Acquisition of Unitron Assets**

On August 17, 2018, the Company exercised an option to acquire the assets of a chain of seven retail electronics stores in the Dominican Republic referred to as the "Unitron Assets." The Option Agreement, as amended, was issued on January 5, 2018 as part of the Company's Merger with Cooltech. As required in the Option Agreement, upon exercise by the Company, the Cooltech shareholders at the date of the merger received 625,000 restricted shares of the Company's common stock, which was recorded directly to stockholders' equity. Consideration for the Unitron acquisition was comprised of \$3,700,000 of previously advanced funds and the assumption of \$868,000 of debt. The purchase price was allocated to the net assets acquired in the transaction as follows (in thousands):

Cash	\$	18
Accounts receivable		27
Inventory		1,243
Other current assets		601
Fixed assets		332
Intangibles		76
Goodwill		4,399
Other assets		41
Accounts payable		(2,169)
Notes payable		(868)
Total	\$	<u>3,700</u>

For the period from August 17, 2018, the date of acquisition, through December 31, 2018, net sales and operating loss from the Dominican Republic entity included in the Company's consolidated statement of operations amount to \$1,607,000 and \$204,000, respectively. On an unaudited pro forma basis, if the acquisition had occurred on January 1, 2018, the Company's combined net sales and net loss from continuing operations for the year ended December 31, 2018 would have been \$26,503,000 and \$22,383,000, respectively.

## NOTE 21. Acquisition of Simply Mac

The Company has long had a stated goal of growing its chain of Apple reseller stores both through organic opening of new stores and through acquisition. This would enable the Company to leverage its leadership structure and support services with a goal of achieving positive cash flow and earnings. To this end, on May 9, 2019, the Company, Simply Mac and GameStop (the “Seller”) entered into a stock purchase agreement, as amended on September 20, 2019 (the “Stock Purchase Agreement”), pursuant to which the Company would purchase from the Seller all of the issued and outstanding shares of capital stock of Simply Mac (the “Stock Purchase”).

On September 25, 2019, the Stock Purchase closed and Simply Mac became a wholly-owned subsidiary of the Company. Aggregate consideration for the Stock Purchase amounted to \$12,552,000 which consisted of cash consideration of \$4,694,000 and a 12% secured promissory note of \$7,858,000. The Company accounted for the Stock Purchase in accordance with the guidance of ASC 805 on business combinations using the acquisition method. The Company made a preliminary allocation of the purchase price based on its assessment of the acquisition-date fair value of the net assets acquired in the transaction as set forth in the table below (in thousands). The estimated fair value of assets acquired and liabilities assumed are considered preliminary and are based on the most recent information available. The provisional measurements of fair value are subject to change pending completion of the valuation and related analysis, which will be as soon as practicable, but no later than one year from the acquisition date. In assessing the fair value, the Company did not assume any synergies from combining with Simply Mac, and used the relief-from-royalty method to determine the fair value of the Simply Mac trademark and tradename. Because the purchase of Simply Mac was a stock purchase, none of the implied goodwill of \$984,000 is deductible for tax purposes.

Cash	\$ 1
Accounts receivable	1,604
Inventory	8,211
Other current assets	362
Fixed assets	739
Right-of-use leased assets	3,414
Goodwill	984
Intangibles	2,092
Other assets	44
Accounts payable	(561)
Lease liability	(3,430)
Accrued liabilities	(908)
Total	<u>\$ 12,552</u>

For the period from September 25, 2019, the date of acquisition, through September 30, 2019, net sales and operating loss from Simply Mac included in the Company’s consolidated statement of operations for both the three and nine months ended September 30, 2019 amounted to \$1,924,000 and \$247,000, respectively. On an unaudited pro forma basis, if the acquisition had occurred on January 1, 2018, the Company’s combined net sales and net loss from continuing operations for the year ended December 31, 2018 would have been \$114,400,000 and \$25,371,000, respectively, and for the nine months ended September 30, 2019 would have been \$69,704,000 and \$16,069,000, respectively.

## NOTE 22. Subsequent Events

During October 2019, excluding the GameStop note, the Company made an offer to holders of substantially all of its debt to convert the outstanding principal and accrued interest of the notes into shares of the Company’s common stock at a price of \$0.51 per share. As of November 18, 2019, holders of convertible and other promissory notes with an aggregate principal amount of \$8,289,000 agreed to convert. The conversion agreements also provided that any outstanding warrants issued with the original notes would be adjusted to an equivalent number of shares received from the conversion of the principal amount of the debt and that the exercise price of the warrants would be adjusted to \$0.51. In cases where no warrants were either issued with the notes or remained outstanding, holders who converted their notes received a new 3-year warrant on an equal number of shares received from the conversion of the principal amount of the debt at an exercise price of \$0.51 per share.

October 28, 2019, the Company and Simply Mac entered into an agreement (the “Sponsorship Agreement”) with Torque Esports Corp. (“Torque”) and Ideas & Cars Ltd. (“Ideas & Cars”), a subsidiary of Torque. Pursuant to the terms of the Sponsorship Agreement, Simply Mac is the sole and exclusive supplier of Apple products to Ideas & Cars until December 31, 2022, and is also now a sponsor for the “America’s Fastest Gamer” event produced by Ideas & Cars. Ideas & Cars is committed to purchasing a minimum of \$600,000 in Apple products from Simply Mac as follows: \$150,000 worth of Apple product during the 2020 calendar year, less any amount of products purchased during the 2019 calendar year; \$200,000 worth of Apple product during the 2021 calendar year; and \$250,000 worth

of Apple product during the 2022 calendar year (collectively, the “Apple Purchases”). In consideration for the Apple Purchases and featuring Simply Mac in its multimedia content, including a television show, either Simply Mac or its parent company, the Company, shall pay to Torque an amount of \$2,550,000 in cash or Equity Securities of the Company, in the Company’s sole discretion, as follows: \$150,000 within 60 days of entering into the Sponsorship Agreement; \$600,000 in four equal installments during the 2020 calendar year; \$800,000 in four equal installments during the 2021 calendar year; and \$1,000,000 in four equal installments during the 2022 calendar year. The Sponsorship Agreement is terminable for convenience by either the Company or Torque upon written notice to the other party at least 10 days prior to the end of each calendar quarter, with such termination effective as of the last day of such calendar quarter in which the notice is delivered.

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

### ***Forward-Looking Statements, Safe Harbor Statement and Other General Information***

This discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and condensed notes thereto and other information included in this report and our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (“SEC”) on April 16, 2019 (including our 2018 audited consolidated financial statements and related notes thereto and other information) (“2018 Annual Report”). Our discussion and analysis of financial condition and results of operations are based upon, among other things, our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in conformity with GAAP requires us to, among other things, make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent liabilities as of the date of our most recent balance sheet, and the reported amounts of revenues and expenses during the reporting periods. We review our estimates and assumptions on an ongoing basis. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from these estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations, although they may. Our critical accounting policies, which we believe are the most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined in “Critical Accounting Policies” in our 2018 Annual Report, as may be updated in our subsequent Quarterly Reports on Form 10-Q. All references to results of operations in this discussion generally are related to results from continuing operations, unless otherwise noted.

This report contains “forward-looking statements,” including, without limitation, statements about trading of our securities on the Over-the-Counter market, sales levels, cost reductions, operating efficiencies, currency-related matters, profitability and adequacy of working capital, which are based on, among other things, current management knowledge and expectations and involve certain risks and uncertainties. These risks and uncertainties, in whole or in part, could cause expectations to fail to be achieved and could have a material adverse effect on our business, financial condition and results of operations, and include, without limitation: (1) our ability to have access to adequate capital to fund both operations and our expansion plans and to service or refinance our remaining outstanding debt; (2) a deterioration in our relationship with Apple that could negatively affect both our supply of products and our ability to conduct business as a licensee; (3) foreign exchange rate fluctuations and/or devaluation of a foreign currency (most notably the Argentine peso) and our ability to effectively hedge for such fluctuations or devaluations, adverse governmental controls or actions, political or economic instability, or disruption of a foreign market, including, without limitation, the imposition, creation, increase or modification of tariffs, taxes, duties, levies and other charges and other related risks of our international operations which could significantly increase selling prices of our products to our customers and end-users and decrease profitability; (4) an interruption or failure of our information systems or subversion of access or other system controls, including private information, may result in a significant loss of business, assets, or competitive information; (5) significant changes in supplier terms and relationships or shortages in product supply; (6) rapid product improvement and technological change resulting in inventory obsolescence; (7) extended general economic downturn in world markets; (8) uncertain political and economic conditions internationally, including terrorist or military actions; (9) the loss of a key executive officer or other key employees and the integration of new employees; (10) our failure to adequately adapt to industry changes and to manage potential growth and/or contractions; and (11) the resolution of any litigation for or against the Company. These forward-looking statements speak only as of the date of this report and we undertake no obligation to publicly update any forward-looking statements to reflect new or changing information, events or circumstances after the date of this release. We continue to institute changes to our strategies, operations and processes to address risks and uncertainties and to mitigate their impacts on our business, results of operations and financial condition. However, no assurances can be given that we will be successful in these efforts. For a further discussion of significant risk factors to consider, see “Risk Factors” below in this report and in “Item 1A. Risk Factors” of our most recent 2018 Annual Report. In addition, other risks or uncertainties may be detailed from time to time in our future SEC filings.

### ***Business Overview and Strategy***

Currently, our business is comprised of 58 retail consumer electronics stores authorized under the Apple® Premier Partner, APR (Apple® Premium Reseller) and AAR MB (Apple® Authorized Reseller Mono-Brand) programs, and Cooltech Distribution, an authorized distributor to our stores and other resellers of Apple® products and other high-profile consumer electronic brands. At total of 16 of our stores operate under our OneClick® brand and are located in Argentina (6), the Dominican Republic (7), and Florida (3). The remaining 42 stores operate under our Simply Mac® brand, are located in 18 states across the U.S., and were acquired from GameStop on September 25, 2019 (see Note 21). Our Cooltech Distribution unit distributes various consumer electronics to resellers, retailers and small and medium-sized businesses in Latin America and the United States. We market and distribute a variety of mobility, computing, audio/video, and other technology products supplied by Apple and others including laptops, tablets, cell phones, drones, smart watches, gaming consoles, accessories and audio devices. In addition to our direct relationship with Apple, we have direct relationships with top third-party brands in the Apple retail echo-system including Bose, Belkin, Speck, Tech21 and Thule,

among others. During 2018, we discontinued our *verykool*<sup>®</sup> brand of Android-based wireless handsets, tablets and related products the Company sold to carriers, distributors and retailers in Latin America.

We work with Apple to develop our network of OneClick and Simply Mac stores in locations and markets where Apple has limited or no presence. In our stores, we sell all Apple and Apple-approved products and accessories, including accessories that we source from independent third parties. We also provide repair service for Apple products using our Apple-certified repair technicians. Retail customers may book a repair appointment at one of our OneClick stores directly through the Apple website.

Our current strategy is to focus on expansion of our Simply Mac retail stores in North America. We expect this expansion will come primarily from acquisitions, but also from organic growth through the opening of new stores. Through the Simply Mac acquisition, we became the largest Apple Premier Partner in North America.

On March 12, 2018, pursuant to an Agreement and Plan of Merger (as amended “Merger Agreement”) by and among the Company, Cooltech Holding Corp. (“Cooltech”), and the Company’s wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. (“Merger Sub”), Cooltech merged with and into Merger Sub (the “Merger”), with Cooltech surviving as a wholly-owned subsidiary of the Company. As discussed in Note 18, because of the change of control that resulted from the Merger, it was treated as a reverse merger with Cooltech deemed to be acquiring InfoSonics for accounting purposes. Therefore, the Company’s historical financial statements prior to the Merger reflect those of Cooltech.

### Results of Operations

The following tables set forth our condensed consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018, and the change between the periods (\$ in thousands):

	For the Three Months Ended September 30,		Change	
	2019	2018	\$	%
Net sales	\$ 7,057	\$ 5,378	\$ 1,679	31.2%
Cost of sales	5,087	4,153	934	22.5%
Gross profit	1,970	1,225	745	60.8%
Selling, general and administrative expenses	3,903	4,108	(205)	-5.0%
Operating loss	(1,933)	(2,883)	950	-33.0%
Other income (expense):				
Interest expense	(1,479)	(506)	(973)	192.3%
Other income (expense), net	94	509	(415)	-81.5%
Loss from continuing operations before provision for income taxes	(3,318)	(2,880)	(438)	15.2%
Provision for income taxes	—	(220)	220	NM
Loss from continuing operations	(3,318)	(3,100)	(218)	7.0%
Loss from discontinued operations	(6)	(631)	625	-99.0%
Net loss	\$ (3,324)	\$ (3,731)	\$ 407	-10.9%

	For the Nine Months Ended September 30,		Change	
	2019	2018	\$	%
Net sales	\$ 17,211	\$ 15,682	\$ 1,529	9.8%
Cost of sales	12,695	12,366	329	2.7%
Gross profit	4,516	3,316	1,200	36.2%
Selling, general and administrative expenses	13,860	11,217	2,643	23.6%
Operating loss	(9,344)	(7,901)	(1,443)	18.3%
Other income (expense):				
Interest expense	(3,166)	(1,078)	(2,088)	193.7%
Other income (expense), net	(77)	991	(1,068)	-107.8%
Loss from continuing operations before provision for income taxes	(12,587)	(7,988)	(4,599)	57.6%
Provision for income taxes	(1)	(220)	219	NM
Loss from continuing operations	(12,588)	(8,208)	(4,380)	53.4%
Loss from discontinued operations	(9)	(1,233)	1,224	-99.3%
Net loss	\$ (12,597)	\$ (9,441)	\$ (3,156)	33.4%

The following table sets forth our condensed consolidated statements of operations as a percentage of net sales for the three months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	72.1%	77.2%	73.8%	78.9%
Gross profit	27.9%	22.8%	26.2%	21.1%
Selling, general and administrative expenses	55.3%	76.4%	80.5%	71.5%
Operating loss	(27.4%)	(53.6%)	(54.3%)	(50.4%)
Other income (expense):				
Interest	(21.0%)	(9.4%)	(18.4%)	(6.9%)
Other income (expense), net	1.3%	9.5%	(0.4%)	6.3%
Loss from continuing operations before provision for income taxes	(47.0%)	(53.6%)	(73.1%)	(50.9%)
Provision for income taxes	0.0%	(4.1%)	(0.0%)	(1.4%)
Loss from continuing operations	(47.0%)	(57.6%)	(73.1%)	(52.3%)
Loss from discontinued operations	(0.1%)	(11.7%)	(0.1%)	(7.9%)
Net loss	<u>(47.1%)</u>	<u>(69.4%)</u>	<u>(73.2%)</u>	<u>(60.2%)</u>

***Three months ended September 30, 2019 compared with three months ended September 30, 2018***

***Net Sales***

For the three months ended September 30, 2019, our net sales amounted to \$7,057,000, an increase of \$1,679,000, or 31%, from \$5,378,000 in the same period last year. Sales generated during the quarter by our OneClick stores amounted to \$4,681,000, an increase of \$996,000, or 27%, from \$3,685,000 in the prior year period. The increase in OneClick sales was primarily attributable to two factors: (1) the August 2018 acquisition of our stores in the Dominican Republic, and (2) the August 2018 opening of our new store in Orlando, Florida. As a consequence of the inflation and rising prices in Argentina, although sales in Argentine pesos in our stores there rose significantly over the prior year, on an exchange rate adjusted basis, sales in U.S. dollars were only up 4% compared to the prior year period. Post-acquisition sales from our Simply Mac stores contributed \$1,924,000 to net sales. Sales at our Cooltech Distribution unit during the quarter amounted to \$452,000, a decline of \$1,241,000, or 73%, compared to \$1,693,000 in the prior year. Sales in the prior year included \$537,000 of sales to the Dominican Republic, prior to our acquisition in August 2018 of the Dominican Republic stores. The remainder of the sales decline represents a decreased focus on our distribution business.

***Gross Profit and Gross Margin***

For the three months ended September 30, 2019, our gross profit amounted to \$1,970,000, an increase of \$745,000, or 61%, from \$1,225,000 in the same period last year. Our gross profit margin for the three months ended September 30, 2019 was 27.9%, substantially higher than 22.8% in the same period last year. The increased gross profit resulted primarily from the addition of the Simply Mac stores, the addition of the new store in Orlando, Florida, as well as improved gross profit in our Dominican Republic stores. These increases were partially offset by reduced gross profit from the lower distribution sales, as well as lower margins at our Argentina stores. The improvement in our gross margin percentage also reflects the higher concentration of “retail” sales versus “distribution” sales compared to the prior year period.

### ***Operating Expenses***

For the three months ended September 30, 2019, total operating expenses amounted to \$3,903,000, a decrease of \$205,000, or 5%, from \$4,108,000 in the same period last year. Operating expenses of Simply Mac this quarter amounted to \$924,000, which included a one-time expense of approximately \$400,000 relating to the audit of their pre-acquisition financial statements. Excluding the Simply Mac operating expenses, other operating expenses of \$2,977,000 actually declined by \$1,131,000, or 27.5% compared to \$4,108,000 in the same period last year. The decrease was primarily the result of the restructuring of our management team in June 2019, as well as reductions in operating expenses at our distribution business and consulting fees at the parent level. In addition, we made cuts in operating expenses both in Argentina and at our OneClick Florida stores that resulted in aggregate savings of \$205,000.

### ***Other Income (Expense)***

Interest expense for the three months ended September 30, 2019 amounted to \$1,479,000, an increase of \$973,000, or 192%, over \$506,000 in the same period last year. The increase is attributable to the combination of the higher debt level in the current period compared to the prior year and the fact that prior year debt was replaced with new debt bearing higher stated interest rates, as well as convertibility features and attached warrants. Both beneficial conversion features and warrants resulted in note discounts that are being accreted to interest expense over the term of the debt. Debt discount accretion in the three months ended September 30, 2019 amounted to \$974,000, an increase of \$811,000 over \$163,000 in the prior year period.

Other income for the three months ended September 30, 2019 of \$94,000 was composed primarily of a \$277,000 gain on a derivative liability, partially offset by a foreign currency loss from our operations in Argentina. Other income of \$509,000 during the three months ended September 30, 2018 consisted primarily of a \$774,000 gain on sale of a patent portfolio by a subsidiary in Canada acquired in June 2018, a \$244,000 gain on an insurance settlement, a \$34,000 gain on the market value of an investment security and a \$537,000 foreign currency loss from our operations in Argentina.

### ***Provision for Income Taxes***

Because of our operating losses, our tax provision for the three months ended September 30, 2019 was nil. Tax expense of \$220,000 for the three months ended September 30, 2018 represents taxes in Canada on the patent portfolio gain reported by our Canadian subsidiary that could not be offset by losses in our other operations.

### ***Nine months ended September 30, 2019 compared with nine months ended September 30, 2018***

#### ***Net Sales***

For the nine months ended September 30, 2019, our net sales amounted to \$17,211,000, an increase of \$1,529,000, or 10%, from \$15,682,000 in the same period last year. Sales generated during the period by our OneClick stores amounted to \$13,380,000, an increase of \$4,051,000, or 43%, from \$9,329,000 in the prior year period. The increase was primarily attributable to two factors: (1) the August 2018 acquisition of our stores in the Dominican Republic, and (2) the August 2018 opening of our new store in Orlando, Florida. As a consequence of the inflation and rising prices in Argentina, although sales in Argentine pesos in our stores there rose significantly over the prior year, on an exchange rate adjusted basis, sales in U.S. dollars were down slightly compared to the prior year period. Post-acquisition sales from our Simply Mac stores contributed \$1,924,000 to net sales during the period. Sales at our Cooltech Distribution unit during the nine-month period amounted to \$1,907,000, a decline of \$4,446,000, or 70%, compared to \$6,353,000 in the prior year period. Sales in the prior year period included \$1,811,000 of sales to the Dominican Republic, prior to our acquisition in August 2018 of the Dominican Republic stores. The remainder of the sales decline represents a decreased focus on our distribution business.

#### ***Gross Profit and Gross Margin***

For the nine months ended September 30, 2019, our gross profit amounted to \$4,516,000, an increase of \$1,200,000, or 36%, from \$3,316,000 in the same period last year. Our gross profit margin for the nine months ended September 30, 2019 was 26.2%, substantially higher than 21.1% in the same period last year. The increased gross profit resulted from the addition of the Simply Mac stores and the addition of the Dominican Republic stores and the new store in Orlando, Florida. These increases were partially offset by reduced gross profit from the lower distribution sales. The improvement in our gross margin percentage reflects the higher concentration of “retail” sales versus “distribution” sales compared to the prior year period.



### ***Operating Expenses***

For the nine months ended September 30, 2019, total operating expenses amounted to \$13,860,000, an increase of \$2,643,000, or 24%, from \$11,217,000 in the same period last year. The increase was comprised primarily of stock-based compensation from stock grants made to directors and officers during the second quarter valued at \$1,560,000, plus \$832,000 related to severance and other expenses resulting from the restructuring of our management team in June 2019. These increases were partially offset in the third quarter of 2019 by savings resulting from the restructuring of our management team, as well as reductions in operating expenses at our distribution business. The current year period also included \$924,000 of post-acquisition operating expenses of Simply Mac, which included a one-time expense of approximately \$400,000 relating to the audit of their pre-acquisition financial statements. Additional operating expense increases over the prior year period came from our newly acquired stores in the Dominican Republic and Orlando, Florida, and increased legal fees.

### ***Other Income (Expense)***

Interest expense for the nine months ended September 30, 2019 amounted to \$3,166,000, an increase of \$2,088,000, or 194%, over \$1,078,000 in the same period last year. The increase is attributable to the combination of the higher debt level in the current period compared to the prior year and the fact that prior year debt was replaced with new debt bearing higher stated interest rates, as well as convertibility features and attached warrants. Both beneficial conversion features and warrants resulted in note discounts that are being accreted to interest expense over the term of the debt. Debt discount accretion in the nine months ended September 30, 2019 amounted to \$2,133,000, an increase of \$1,672,000 over \$461,000 in the prior year period.

For the nine months ended September 30, 2019, other expense of \$77,000 was comprised primarily of a \$364,000 foreign currency loss from our operations in Argentina, offset by a \$277,000 gain on a derivative liability. Other income of \$991,000 during the nine months ended September 30, 2018 consisted primarily of a gain of approximately \$1.3 million on sale of a patent portfolio by a subsidiary in Canada acquired in June 2018, as well as a \$244,000 gain on an insurance settlement. These items were partially offset by a \$537,000 foreign currency loss from our operations in Argentina. Other income of \$113,000 during the nine months ended September 30, 2017 consisted of \$387,000 related to a settlement with a supplier that resulted in the forgiveness of an outstanding account payable, partially offset by \$274,000 related to a fair value adjustment of a promissory note.

### ***Provision for Income Taxes***

Because of our operating losses, our tax provisions for the nine months ended September 30, 2019 was nil. Tax expense of \$220,000 for the nine months ended September 30, 2018 represents taxes in Canada on the patent portfolio gain reported by our Canadian subsidiary that could not be offset by losses in our other operations.

### ***Currency Rate Fluctuations***

Changes in the relative values of non-U.S. currencies, most importantly the Argentine peso and the Dominican Republic peso, to the U.S. dollar affect our financial results and financial position. Significantly, as noted above, the designation of Argentina as a highly inflationary economy now requires us to recognize foreign exchange losses in our income statement rather than through the other comprehensive loss account on our balance sheet. During the nine months ended September 30, 2019, we recorded \$364,000 in foreign currency losses in other expense and a loss of \$34,000 related to our Dominican Republic operations as an increase to our accumulated other comprehensive loss account, which now has a balance of \$1,011,000.

Foreign currency fluctuations often drive operational responses that mitigate the simple mechanical translation of earnings. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates. For example, when pricing our products to the marketplace, we may use some of the advantage from a weakening U.S. dollar to improve our position competitively, and price more aggressively to win the business, essentially passing on a portion of the currency advantage to our customers. Competition will frequently take the same action. Conversely, when the U.S. dollar is stronger, as it currently is, we try to raise prices to mitigate the currency impact, but this may not always be possible in the marketplace and our competitors may not always act in the same way. At times we may use foreign exchange hedging techniques when we deem it advantageous to try to reduce some of our currency risk.

### ***Liquidity and Capital Resources***

We are in the early stages of executing our strategy. Because we have not been profitable and do not have a bank line of credit, our primary sources of funding have been the sale of debt and equity securities. Our ability to execute our strategy depends upon our future operating performance and on the availability of equity and debt financing, which is affected by prevailing economic conditions in our industry and financial, business and other factors, some of which are beyond our control. We cannot predict whether additional liquidity from equity or debt financings will be available on acceptable terms, or at all, in the foreseeable future.

We expect this situation will continue until we get adequately funded and are able to transform our network of retail stores, including those recently acquired with the recent Simply Mac acquisition, to a level where we can achieve sustained profitability. Our reliance upon financing is discussed further in Note 2 – “Going Concern Considerations” to our consolidated financial statements.

Recognizing we may not have adequate liquidity from cash generated from business operations for current working capital needs and fully executing our strategy, we will need to access the public or private equity or debt markets for future development of expansions, acquisitions, additional working capital or other liquidity needs, if such financing is available on acceptable terms. We cannot guarantee that such financing will be available to us on acceptable terms or at all.

We continue to work with many of our convertible debt holders to strike an arrangement whereby they would convert their debt into shares of our common stock so that we can reduce or eliminate the requirement to service or refinance that debt and the associated interest expense that burdens our financial statements. This is most critical as it relates to the \$4.55 million of convertible notes that we issued in the recent quarter ended September 30, 2019 to raise funds for the Simply Mac acquisition. As a result of the complicated nature of those instruments, the accounting rules required us to allocate the value of the notes between the pure debt component and the derivative liability for the conversion feature and the warrants. As is described in detail in Note 10 to our financial statements, approximately 96% of the face value of the notes amounting to \$4.37 million was allocated to the derivative liability and recorded as a discount to the notes. This discount is being amortized to interest expense over the 1-year life of the notes on a straight-line basis. Over the life of the notes, when the 96% discount amortization is added to the stated interest rate of 12% per annum, the “effective” interest rate on the notes is 108% per annum. For this reason, we have placed a high priority on finding a resolution to this convertible debt issue.

### ***Critical Accounting Policies***

There have been no material changes to our critical accounting policies and estimates affecting the application of those accounting policies since our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk. The term “market risk” for us refers to the risk of loss arising from adverse changes in interest rates and various foreign currencies. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of what could cause certain potentially material losses. This forward-looking information provides an overview of how we view and manage ongoing market risk exposures.

#### ***Interest Rates***

We do not currently have any debt obligations that expose us to market risk from changes in interest rates.

#### ***Foreign Exchange and Other Risks***

Our domestic sales transactions are denominated in U.S. dollars, and sales in our stores in Argentina and the Dominican Republic are typically priced in Argentine and Dominican pesos, respectively. At September 30, 2019 and December 31, 2018, foreign currency cash accounts in Argentine pesos amounted to \$24,000 and \$55,000, respectively. At September 30, 2019 and December 31, 2018, foreign currency cash accounts in Dominican pesos amounted to \$37,000 and \$79,000, respectively. At September 30, 2019 and December 31, 2018, accounts receivable denominated in Argentine pesos amounted to \$229,000 and \$1,716,000, respectively. At September 30, 2019 and December 31, 2018, accounts receivable denominated in Dominican pesos amounted to \$25,000 and \$25,000, respectively. Substantially all of our product costs are denominated in U.S. dollars, while operating costs at our OneClick stores in Argentina and the Dominican Republic are denominated in local currencies.

Foreign currency risks are associated with our cash, receivables, payroll and payables denominated in foreign currencies. Fluctuations in exchange rates can result in foreign exchange gains and losses on these foreign currency assets and liabilities, which are included in other income (expense) in our consolidated statements of operations and comprehensive loss. See “Currency Rate Fluctuations” above for additional information.

As a result of our international sales, our future operating results could also be adversely affected by a variety of factors, including changes in specific countries’ political, economic (including inflationary and deflationary) or regulatory conditions and trade protection measures.

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

### ***Disclosure Controls***

An evaluation was performed pursuant to Rule 13a-15(b) of Exchange Act under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. These disclosure controls and procedures are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

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

There was no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our third quarter ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company has in the past and may in the future become involved in certain legal proceedings and claims which arise in the normal course of business. As of the filing date of this report, the Company did not have any significant litigation outstanding.

### Item 1A. Risk Factors

In addition to the risk factors included below and other information set forth in this report, you should carefully consider the factors discussed in “Part I. Item 1A. Risk Factors” in, as well as other sections of, our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on April 16, 2019 (“2018 Annual Report”), which factors and information could materially affect our business, financial condition or operating results. The risk factors and uncertainties described in our 2018 Annual Report on Form 10-K, and in this report are not the only risks and uncertainties facing our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition or operating results. Except as set forth below, we do not believe there have been material changes to the risk factors included in our 2018 Annual Report.

#### Risks Related To Our Business

***We reported significant losses for the last two years and currently have a large deficit in stockholders’ equity. If we are unable to raise new equity capital and achieve sustained profitability, our business may not be financially viable.***

For the years ended December 31, 2018 and 2017, we reported net losses of \$27.3 million and \$7.5 million, respectively, and we reported a \$12.6 million loss for the nine months ended September 30, 2019. As of September 30, 2019, our balance of cash and restricted cash was \$2.3 million, but we had negative net working capital of \$16.4 million and long-term debt of \$2.7 million. While we have plans to raise additional equity funding and significant expansion plans designed to attain and maintain profitability, if we do not succeed, our business might continue to experience losses and may not be sustainable in the future. In addition, at September 30, 2019, our total liabilities exceeded our total assets and we had an accumulated stockholders’ deficit of \$11.5 million. Consequently, as discussed in Note 2 to our financial statements, we have substantial doubt that we could remain independent and continue as a going concern if we are not able to raise additional capital and/or refinance or restructure our existing debt. There can be no assurances that future financing will be available to us on acceptable terms, if at all, or that we will attain profitability.

***Our OneClick and Simply Mac businesses are highly dependent on a single supplier and a loss of that supplier or a deterioration of our relationship with them could significantly reduce our sales and profitability and jeopardize our business model.***

Our business is highly dependent upon Apple as a supplier of the Apple products and Apple-approved products that are sold in our OneClick and Simply Mac stores. In addition, the growth of our business is highly dependent upon our relationship with Apple in providing us with the licenses and approvals necessary to expand our footprint into various countries and regions around the world. Apple has very strict performance standards and guidelines that we must achieve and adhere to in order to be successful and continue to receive their support. Consequently, any deterioration of our performance or failure to adhere to their guidelines could jeopardize our strategy and adversely affect our financial performance.

***A significant portion of our revenues are, and for the near future will likely continue to be, generated outside of the United States, in countries that may have volatile currencies or other risks.***

A significant portion of our sales activities are conducted in territories and countries outside of the United States, primarily in Latin America. Our sales transactions in Latin America are denominated in local currencies and therefore may be impacted by changes in the strength of the U.S. dollar relative to the foreign economies where we conduct business. Specifically, the Argentine peso has been extremely volatile, and effective July 1, 2018 Argentina’s economy has been classified as highly inflationary, indicating that its cumulative inflation rate over the last 3 years exceeds 100%. These transactions expose us to, among other things, increased credit risks, customs duties, import quotas and other trade restrictions, potentially greater and more unpredictable inflationary and currency pressures, labor risks and shipping delays. Changes may occur in social, political, regulatory (including tax) and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently buy and sell products. U.S. laws and regulations relating to investment and trade in foreign countries could also change to our detriment. In addition, other countries may change their own policies on business and foreign investment in companies in their respective countries. Any measures that could impact the cost or availability of the merchandise we offer could have an adverse impact on our business, because a significant portion of the products we offer are purchased from foreign vendors and manufactured in foreign countries. We cannot predict the effect that future exchange rate fluctuations will have on our operating results or financial position.

***We depend on the timely delivery of new and innovative products from our vendors.***

We depend on manufacturers, primarily Apple, to deliver our products in quantities sufficient to meet customer demand. In addition, we depend on these manufacturers to introduce new and innovative products to drive industry sales. Any material delay in the introduction or delivery, or limited allocations, of our products could result in reduced sales.

***If our vendors fail to provide marketing and merchandising support at historical levels, our sales and earnings could be negatively impacted.***

The manufacturers of our products have typically provided retailers with significant marketing and merchandising support for their products. As part of this support, we receive cooperative advertising and market development payments from our vendors, which enables us to actively promote and merchandise the products we sell and drive sales at our stores and on our websites. We cannot assure you that vendors will continue to provide this support at historical levels. If they fail to do so, our business and results of operations may be negatively impacted.

***We recently acquired Simply Mac, Inc., and may make other investments and acquisitions which could negatively impact our business if we fail to successfully complete and integrate them, or if they fail to perform in accordance with our expectations.***

To enhance our efforts to grow and compete, we plan to make investments and acquisitions. This includes our recently completed acquisition of Simply Mac, Inc. discussed in Note 21. We cannot assure you that we will successfully complete other future investments or acquisitions. Also, companies that we may acquire in the future, could have products that are in development, and there is no assurance that these products will be successfully developed. Finally, if Simply Mac or other future acquisitions are not successfully integrated with our business, or fail to perform in accordance with our expectations, our ongoing operations could be adversely affected.

***We are dependent on our management team and the loss of any key member of that team could have a material adverse effect on our operations and financial condition.***

We endeavor, and currently have plans, to expand and develop our business, including the newly acquired Simply Mac. The success of these endeavors will depend on the leadership and contributions of the directors and managing team for our Company, OneClick and Simply Mac. Our success is therefore dependent to a large extent on our ability to retain the services of key management personnel. The loss of their services without timely and qualified replacement(s), would adversely affect our operations and endeavors.

***Failure to effectively manage our new store openings could lower our sales and profitability.***

Our sales and profitability depend in part upon opening new stores and operating them profitably. We currently operate a total of 16 OneClick stores and 42 Simply Mac stores. Our ability to open new stores and operate them profitably depends on a number of factors, some of which may be beyond our control. These factors include the ability to:

- identify new store locations, negotiate suitable leases, and build out the stores in a timely and cost-efficient manner;
- integrate new stores into our existing operations; and
- increase sales at new store locations.

If we fail to manage new store openings in a timely and cost-efficient manner, our growth or profits may decrease.

***If we are unable to renew or enter into new leases on favorable terms, our revenue may be adversely affected.***

All of our retail stores are located on leased premises. If the cost of leasing existing stores increases, we cannot assure that we will be able to maintain our existing store locations as leases expire. In addition, we may not be able to enter into new leases on favorable terms or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. Our revenues and earnings may decline if we fail to maintain existing store locations, enter into new leases, locate alternative sites, or find additional sites for new store expansion.

***If our management information systems fail to perform or are inadequate, our ability to manage our business could be disrupted.***

We rely on computerized inventory and management systems to coordinate and manage the activities in our distribution center, point-of-sales systems to manage retail operations in our OneClick and Simply Mac stores, and accounting systems to manage our finance activities. We rely upon these systems to replenish our store inventories on a weekly basis to keep them stocked at optimum levels and to manage our business finances and timely report our financial results. Our systems are subject to damage or interruption

from power outages, telecommunications failures, cyber-attacks, security breaches, and catastrophic events. If our inventory or management information systems fail to adequately perform their functions, our business could be adversely affected. In addition, if operations in any of our distribution centers were to shut down or be disrupted or if these centers were unable to accommodate stores in a particular region, our business and results of operations may be negatively impacted. With regard to our accounting systems, we intend to upgrade portions of our current system, and any failure in those systems could negatively impact our ability to timely report our financial results.

***As a seller of certain consumer products, we are subject to various federal, state, local, and international laws and regulations relating to product safety and consumer protection***

While we take steps to comply with these laws, there can be no assurance that we will be in compliance, and failure to comply with these laws could result in litigation, regulatory action, and penalties which could have a negative impact on our business, financial condition, and results of operations. In addition, our suppliers might not adhere to product safety requirements and the Company and those suppliers may therefore be subject to involuntary or voluntary product recalls or product liability lawsuits. Direct costs, lost sales, and reputational damage associated with product recalls, government enforcement actions, or product liability lawsuits, individually or in the aggregate, could have a negative impact on future revenues and results of operations.

**Risks Related To Our Common Stock**

***We may issue additional stock to restructure outstanding debt and/or to raise capital to fund our expansion plans that would dilute substantially the voting power of our current stockholders.***

In order to restructure outstanding debt and/or raise capital to meet our ongoing working capital needs or fund expansion of our OneClick and Simply Mac stores, we expect to issue additional shares of the Company's stock that would substantially dilute the voting power of our current stockholders. We may also refinance or issue new debt that is convertible into Company stock and may include the issuance of warrants.

***The market for our common stock is volatile and our stock price could decline.***

The price of our stock, as well as the stock market in general, has been highly volatile. The market price of our common stock during the period from March 12, 2018 (the date of the Merger) through November 15, 2019, has fluctuated between \$22.61 and \$0.06. We expect that our stock price is likely to remain volatile. Investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects, resulting in a substantial (potentially total) loss on their investment. In addition, an active trading market for our common stock may not be sustained, which could affect the ability of our stockholders to sell their shares and could depress the market price of their shares.

***Trading of our shares of common stock may be affected by the involuntary delisting from NASDAQ Capital Market, and stockholders may find it difficult to dispose of shares and our share price may be adversely affected.***

Our shares of common stock are quoted on the Over-the-Counter (the “OTC”) OTCQB Venture Market (the “OTCQB”). We previously traded on the NASDAQ Capital Market, but our shares of common stock were suspended on November 8, 2019. We have been notified that NASDAQ will complete the involuntarily delisting of our shares of common stock by filing a Form 25 once all its internal appeal periods have expired, and our stockholders will not be able to trade their shares of common stock on the NASDAQ in the foreseeable future.

As a result, being quoted for trading on the OTCQB may reduce the market liquidity of our common stock, as well as cause the market price of our common stock to decline. While we are still required to comply with SEC filing and disclosure requirements as our common stock will remain registered under Section 12(g) of the Exchange Act, certain federal and state securities law resale exemptions for our common stock may no longer be available once we are delisted.

Furthermore, if the trading price of our common stock remains below \$5.00 per share, trading in our common stock might also become subject to the requirements of certain rules promulgated under the Exchange Act, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a “penny stock” (generally, any equity security not listed on a national securities exchange that has a market price of less than \$5.00 per share, subject to certain exceptions). Many brokerage firms are reluctant to recommend low-priced stocks to their clients. Moreover, various regulations and policies restrict the ability of stockholders to borrow against or “margin” low-priced stocks, and declines in the stock price below certain levels may trigger unexpected margin calls. Additionally, because brokers’ commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher priced stocks, the current price of the common stock can result in an individual stockholder paying transaction costs that represent a higher percentage of total share value than would be the case if our share price were higher. This factor may also limit the willingness of institutions to purchase our common stock. Finally, the additional burdens imposed upon broker-dealers by these requirements could discourage broker-dealers from facilitating trades in our common stock, which could severely limit the market liquidity of our stock and the ability of investors to trade our common stock, thereby negatively impacting the share price of our common stock.

***If we fail to meet the eligibility requirements of OTCQB, we could be removed from the OTCQB which would limit the ability of broker-dealers to sell our securities in the secondary market.***

The companies trading their securities on OTCQB must maintain certain eligibility criteria, including having a minimum bid price for of \$0.01 for their securities quoted on the OTCQB, to continue to be quoted on the OTCQB. There is no guarantee that we will continue to meet OTCQB criteria to continue to have our common stock be quoted thereon. As a result, failure to be quoted on the OTCQB would cause the Company’s common stock to be quoted on the OTC Pink Open Market, which may severely adversely affect the market liquidity for our shares by limiting the ability of broker-dealers to sell such shares, and the ability of stockholders to sell their shares in the secondary market. In addition, if we are no longer quoted on the OTCQB, there can be no assurance that will meet the eligibility criteria and requalify for quotation on the OTCQB.

## Item 6. Exhibits

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Articles of Incorporation (1)
3.2	Amended at Restated Bylaws (2)
3.3	Amendment to Articles of Incorporation dated as of July 25, 2017 (3)
3.4	Amendment to Articles of Incorporation dated as of October 10, 2017 (4)
3.5	Amendment to Articles of Incorporation dated as of March 9, 2018 (5)
3.6	Amendment to Articles of Incorporation dated as of June 7, 2018 (6)
4.1	Form of July 2019 Unsecured Convertible Note (7)
4.2	Form of August 2019 Unsecured Convertible Note (+)
4.3	Form of September 2019 Unsecured Convertible Note (9)
10.1	Stock Purchase Agreement by and among Cool Holdings, Inc., Simply Mac, Inc. and GameStop Corp., dated as of May 9, 2019 (7)
10.2	Form of Promissory Note, Reimbursement and Indemnification Agreement and Security Agreement (9)
10.3	Form of Escrow Agreement (9)
10.4	Agreement dated October 28, 2019 among Torque Esports Corp., Ideas & Cars Ltd., Simply Mac, Inc. and Cool Holdings, Inc. (10)
10.5	Acknowledgment Agreement for April 2018 4.02% Unsecured Promissory Note (11)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (+)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (+)
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. (+)
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.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, filed on January 30, 2004.

(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on May 14, 2010.

(3) Incorporated by reference to the Company's Current Report on Form 8-K, filed on July 26, 2017.

(4) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 11, 2017.

(5) Incorporated by reference to the Company's Current Report on Form 8-K, filed on March 12, 2018.

(6) Incorporated by reference to the Company's Current Report on Form 8-K, filed on June 14, 2018.

(7) Incorporated by reference to the Company's Current Report on Form 8-K, filed on July 15, 2019.

(8) Incorporated by reference to the Company's Current Report on Form 8-K, filed on May 9, 2019.

(9) Incorporated by reference to the Company's Current Report on Form 8-K, filed on September 26, 2019.

(10) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 30, 2019.

(11) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 25, 2019.

(+) Filed herewith.





**CERTIFICATION**

I, Reinier Voigt, certify that:

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

Date: November 19, 2019

/s/ REINIER VOIGT

Reinier Voigt, Chief Executive Officer

**CERTIFICATION**

I, Vernon A. LoForti, certify that:

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

Date: November 19, 2019

/s/ VERNON A. LOFORTI  
Vernon A. LoForti, Chief Financial Officer

**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 filing of the Quarterly Report on Form 10-Q (the "Report") of Cool Holdings, Inc. (the "Company") for the quarterly period ended September 30, 2019, each of the undersigned in his capacity as an officer of the Company hereby certifies 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 (15 U.S.C. 78m or 78o(d)); 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 19, 2019

/s/ REINIER VOIGT

Reinier Voigt, Chief Executive Officer

Date: August 19, 2019

/s/ VERNON A. LOFORTI

Vernon A. LoForti, Chief Financial Officer