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 March 31, 2019

OR

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

For the transition period from_______________to_______________

001-38875
(Commission file number)

Greenlane Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	83-0806637
State or other jurisdiction of incorporation or organization	**(I.R.S. Employer Identification No.)**
1095 Broken Sound Parkway, Suite 300 Boca Raton, FL	33487
(Address of principal executive offices)	**(Zip Code)**

(877) 292-7660
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports 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.

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.01 par value per share	GNLN	Nasdaq Global Market

As of May 9, 2019, Greenlane Holdings, Inc. had 9,997,776 shares of Class A common stock outstanding, 5,988,485 shares of Class B common stock outstanding and 77,791,218 shares of Class C common stock outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	1
GREENLANE HOLDINGS, INC.	
CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 (UNAUDITED)	1
NOTES TO CONSOLIDATED BALANCE SHEETS (UNAUDITED)	2
GREENLANE HOLDINGS, LLC	
CONDENSED CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 (UNAUDITED)	7
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED)	8
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED)	9
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CLASS B UNITS AND MEMBERS' DEFICIT FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED)	10
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED)	11
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	12
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	31
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	47
ITEM 4. CONTROLS AND PROCEDURES	48
PART II. OTHER INFORMATION	48
ITEM 1. LEGAL PROCEEDINGS	48
ITEM 1A. RISK FACTORS	48
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	49
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	49
ITEM 4. MINE SAFETY DISCLOSURES	49
ITEM 5. OTHER INFORMATION	49
ITEM 6. EXHIBITS	49

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GREENLANE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2019	December 31, 2018
TOTAL ASSETS	$ 2	$ 2
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock $0.01 par value per share, 1,000 shares authorized; 200 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	$ 2	$ 2
Total stockholders' equity	$ 2	$ 2

The accompanying notes are an integral part of these unaudited consolidated balance sheets.

Note 1. Organization

Organization

Greenlane Holdings, Inc. ("Greenlane" and, collectively with the Operating Company (as defined below) and its subsidiaries, the "Company") was formed as a Delaware corporation on May 2, 2018. Greenlane is a holding company that was formed for the purpose of completing an underwritten initial public offering ("IPO") of shares of its Class A common stock and other related Transactions (as defined below) in order to carry on the business of Greenlane Holdings, LLC (the "Operating Company"), the predecessor of Greenlane for financial reporting purposes. As the sole manager of the Operating Company, Greenlane operates and controls all of the business and affairs of the Operating Company, and through the Operating Company and its subsidiaries, conducts its business.

See "Note 4 — Subsequent Events" below for the description of the IPO and the Transactions completed in April 2019.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated balance sheets are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Separate statements of operations, comprehensive income, changes in stockholders' equity, and cash flows have not been presented as Greenlane did not engage in any business activities prior to the IPO except for the issuance of 200 shares of common stock in connection with the initial capitalization of Greenlane as described in "Note 3 – Stockholders' Equity."

Note 3. Stockholders' Equity

As of March 31, 2019 and December 31, 2018, Greenlane was authorized to issue 1,000 shares of common stock, par value $0.01 per share (the "Original Common Stock"), and had 200 shares issued and outstanding.

On April 17, 2019, in connection with the IPO and the Transactions, Greenlane amended and restated its certificate of incorporation. After giving effect to the amendment and restatement of Greenlane's certificate of incorporation, the total number of shares of all classes of stock that Greenlane is authorized to issue is two hundred forty-five million (245,000,000), consisting of (i) one hundred twenty-five million (125,000,000) shares of Class A common stock, par value $0.01 per share (the "Class A common stock"); (ii) ten million (10,000,000) shares of Class B common stock, par value $0.0001 per share (the "Class B common stock"); and (iii) one hundred million (100,000,000) shares of Class C common stock, par value $0.0001 per share (the "Class C common stock", and together with the Class A common stock and the Class B common stock, the "Common Stock"); and (iv) ten million (10,000,000) shares of preferred stock, par value $0.0001 per share. Pursuant to the amended and restated certificate of incorporation, the two hundred (200) shares of Original Common Stock of Greenlane issued and outstanding prior to the effective time were cancelled without further action by, or consideration to, the holders thereof.

Shares of Class A common stock have both voting interests and economic interests (i.e., the right to receive distributions or dividends, whether cash or stock, and proceeds upon dissolution, winding up or liquidation), while shares of Class B common stock and Class C common stock have voting interests but no economic interests. Each share of Class A common stock, Class B common stock and Class C common stock entitles the record holder thereof to one vote on all matters on which stockholders generally are entitled to vote, and except as otherwise required in the amended and restated certificate of incorporation, the holders of Common Stock will vote together as a single class on all matters (or, if any holders of preferred stock of Greenlane are entitled to vote together with the holders of Common Stock, as a single class with such holders of preferred stock).

Note 4. Subsequent Events

Subsequent events through May 9, 2019, the date on which the consolidated balance sheets were available to be issued, were evaluated by Greenlane to determine the need, if any, for recognition or disclosure in its consolidated balance sheets.

Initial Public Offering and Organizational Transactions

On April 23, 2019, Greenlane completed its IPO of 6,000,000 shares of Class A common stock, which was comprised of 5,250,000 shares of Class A common stock sold by Greenlane and 750,000 shares sold by certain selling stockholders (comprised of Aaron LoCascio, Greenlane's Chief Executive Officer, Adam Schoenfeld, Greenlane's Chief Strategy Officer, and an affiliated entity of Messrs. LoCascio and Schoenfeld), in each case at a public offering price of $17.00 per share. In addition, on April 23, 2019, Greenlane issued 3,547,776 shares of Class A common stock to the holders of convertible notes upon conversion of such convertible notes at a settlement price equal to 80% of the IPO price. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from the selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. Greenlane did not receive any proceeds from the sale of Class A common stock by the selling stockholders. The sale of shares of Class A common stock by Greenlane generated aggregate net proceeds to Greenlane, after deducting the underwriting discounts and commissions and offering expenses payable by the Operating Company, of approximately $80.4 million. Greenlane contributed all of the net proceeds to the Operating Company in exchange for a number of common membership interests in the Operating Company ("Common Units") equal to the number of shares of Class A common stock sold by Greenlane in the IPO at a price per Common Unit equal to the IPO price per share of Class A common stock. After giving effect to the IPO and the related Transactions, Greenlane owned approximately 23.9% of the Operating Company's outstanding Common Units.

As a result of the IPO and the Transactions, Greenlane became the sole manager of the Operating Company and its principal asset is Common Units of the Operating Company. As the sole manager of the Operating Company, Greenlane operates and controls all of the business and affairs of the Operating Company, and through the Operating Company and its subsidiaries, conducts its business. Although Greenlane has a minority economic interest in the Operating Company, Greenlane has the sole voting interest in, and controls the management of, the Operating Company, and will have the obligation to absorb losses of, and receive benefits from, the Operating Company, that could be significant. Greenlane has determined that, as a result of the Transactions, the Operating Company is a variable interest entity ("VIE") and that Greenlane will be the primary beneficiary of the Operating Company. Accordingly, pursuant to the VIE accounting model, beginning in the fiscal quarter ending June 30, 2019, Greenlane will consolidate the Operating Company in its consolidated financial statements and will report a non-controlling interest related to the Common Units held by the members of the Operating Company (other than the Common Units held by Greenlane) on its consolidated financial statements. Greenlane Holdings, Inc. has a board of directors and executive officers, but has no employees. All of the Company's assets are held by, and all of its operations are conducted through, the Operating Company. All of the Company's employees are employed by the Operating Company.

In connection with the closing of the IPO, Greenlane and the Operating Company consummated the following organizational transactions (collectively, the "Transactions"):

- The Operating Company adopted and approved the Third Amended and Restated Operating Agreement of the Operating Company (the "Operating Agreement"), which converted each member's existing membership interests in the Operating Company into Common Units, including unvested membership interests and profits interests into unvested Common Units, and appointed Greenlane as the sole manager of the Operating Company;

- Greenlane amended and restated its certificate of incorporation to, among other things, provide for Class A common stock, Class B common stock and Class C common stock;

- Greenlane issued one share of Class B common stock to its non-founder members for each Common Unit they owned, for nominal consideration, and issued three shares of Class C common stock to its founder members for each Common Unit they owned, for nominal consideration;

- Greenlane issued and sold 3,547,776 shares of Class A common stock to the holders of the convertible notes at a settlement price equal to 80% of the IPO price;

- Greenlane issued and sold 1,200,000 shares of its Class A common stock to its members upon exchange of an equal number of Common Units, which shares were sold by the members as selling stockholders in the IPO, including 450,000 shares issued pursuant to the partial exercise of the underwriter's option to purchase additional shares;

- Greenlane issued and sold 5,250,000 shares of its Class A common stock to the purchasers in the IPO, and used all of the net proceeds received from the IPO to acquire Common Units from the Operating Company at a purchase price per Common Unit equal to the IPO price per share of Class A common stock, less underwriting discounts and commissions, which Common Units, when added to the Common Units received from the selling stockholders, collectively represented approximately 15.4% of the Operating Company's outstanding Common Units after the IPO;

- The members of the Operating Company continue to own their Common Units not exchanged for the shares of Class A common stock sold by them as selling stockholders in the IPO;

- Greenlane entered into (i) a Tax Receivable Agreement (the "Tax Receivable Agreement") with the Operating Company and the Operating Company's members and (ii) a Registration Rights Agreement (the "Registration Rights Agreement") with the Operating Company's members who, assuming that all of the Common Units of such members are redeemed or exchanged for newly-issued shares of Class A common stock on a one-to-one basis, will own an aggregate of 31,918,891 shares of Class A common stock, representing approximately 89.4% of the combined voting power of all of Greenlane's Common Stock. Although the actual timing and amount of any payments that Greenlane will make to the Operating Company's members under the Tax Receivable Agreement will vary, Greenlane expects those payments to be significant.

Common Units are redeemable, subject to contractual restrictions, at the election of such members for newly-issued shares of Class A common stock on a one-to-one basis (and their shares of Class B common stock or Class C common stock, as the case may be, will be cancelled on a one-to-one basis in the case of Class B common stock or three-to-one basis in the case of Class C common stock upon any such issuance). Greenlane has the option to instead make a cash payment equal to a volume weighted average market price of one share of Class A common stock for each Common Unit redeemed (subject to customary adjustments, including for stock splits, stock dividends and reclassifications) in accordance with the terms of the Operating Agreement. Greenlane's decision to make a cash payment upon a member's election will be made by its independent directors (within the meaning of the Nasdaq Marketplace Rules) who are disinterested in such proposed redemption.

The Company's corporate structure following the IPO, as described above, is commonly referred to as an "Up-C" structure, which is often used by partnerships and limited liability companies when they undertake an initial public offering of their business. The Up-C structure allows the members of the Operating Company to continue to realize tax benefits associated with owning interests in an entity that is treated as a partnership, or "pass-through" entity, for income tax purposes following the IPO. One of these benefits is that future taxable income of the Operating Company that is allocated to its members will be taxed on a flow-through basis and therefore will not be subject to corporate taxes at the entity level. Additionally, because the members may redeem their Common Units for shares of Greenlane's Class A common stock or, at Greenlane's option, for cash, the Up-C structure also provides the members with potential liquidity that holders of non-publicly traded limited liability companies are not typically afforded.

Greenlane will receive the same benefits as its members because of its ownership of Common Units in an entity treated as a partnership, or "pass-through" entity, for income tax purposes. As Greenlane redeems additional Common Units from the Operating Company's members under the mechanism described above, Greenlane will obtain a step-up in tax basis in Greenlane's share of the Operating Company's assets. This step-up in tax basis will provide Greenlane with certain tax benefits, such as future depreciation and amortization deductions that can reduce the taxable income allocable to Greenlane. Greenlane entered into the Tax Receivable Agreement with the Operating Company and each of the Operating Company's members, which provides for the payment by Greenlane to the Operating Company's members of 85% of the amount of tax benefits, if any, that Greenlane actually realizes (or in some cases, is deemed to realize) as a result of (i) increases in tax basis resulting from the redemption of Common Units and (ii) certain other tax benefits attributable to payments made under the Tax Receivable Agreement.

As a result of the completion of the Transactions, including the IPO:

- Greenlane is a holding company and its principal asset is the Common Units it holds in the Operating Company;

- Greenlane is the sole manager of the Operating Company and controls the business and affairs of the Operating Company and its subsidiaries;

- Greenlane's amended and restated certificate of incorporation and the Operating Agreement require that (i) Greenlane at all times maintains a ratio of one Common Unit owned by Greenlane for each share of Class A common stock issued by Greenlane (subject to certain exceptions for treasury shares and shares underlying certain convertible or exchangeable securities), and (ii) the Operating Company at all times maintains (x) a one-to-one ratio between the number of shares of Class A common stock issued by Greenlane and the number of Common Units owned by Greenlane, (y) a one-to-one ratio between the number of shares of Class B common stock owned by the non-founder members of the Operating Company and the number of Common Units owned by the non-founder members of the Operating Company, and (z) a three-to-one ratio between the number of shares of Class C common stock owned by the founder members of the Operating Company and their affiliates and the number of Common Units owned by the founder members of the Operating Company and their affiliates;

- Greenlane owns 9,997,776 Common Units, representing approximately 23.9% of the economic interests in the Operating Company;

- The purchasers in the IPO (i) own 6,450,000 shares of Class A common stock, representing approximately 6.9% of the combined voting power of all of Greenlane's Common Stock, (ii) own approximately 64.5% of the economic interest in Greenlane, and (iii) through Greenlane's ownership of Common Units, indirectly hold approximately 15.4% of the economic interests in the Operating Company;

- The non-founder members of the Operating Company own (i) 5,988,485 Common Units, of which 435,968 Common Units are subject to certain vesting conditions (the "Non-Vested Common Units"), representing 14.3% of the economic interests in the Operating Company, and (ii) through their ownership of Class B common stock, approximately 6.4% of the voting power in Greenlane;

- The founder members of the Operating Company own (i) 25,930,406 Common Units, representing 61.9% of the economic interests in the Operating Company, and (ii) through their ownership of Class C common stock, approximately 83.0% of the voting power in Greenlane;

- The members of the Operating Company collectively (i) own Class B common stock and Class C common stock representing approximately 89.4% of the combined voting power of all of Greenlane's common stock, and (ii) own 76.2% of the economic interests in the Operating Company, representing a direct interest through the members' ownership of Common Units.

The following table sets forth the economic and voting interests of holders of Greenlane's Common Stock as of the date of this Quarterly Report on Form 10-Q:

Class of Common Stock (ownership)	Total Shares (1)	Class A Shares (as converted) (2)	Economic Ownership in the Operating Company (3)	Voting Interest in Greenlane (4)	Economic Interest in Greenlane (5)
Class A (purchasers in the IPO)	6,450,000	6,450,000	15.4%	6.9%	64.5%
Class A (former convertible note holders) (6)	3,547,776	3,547,776	8.5%	3.8%	35.5%
Class B (non-founder members)	5,988,485	5,988,485	14.3%	6.4%	0.0%
Class C (founder members)	77,791,218	25,930,406	61.9%	83.0%	0.0%
Total	93,777,479	41,916,667	100.0%	100.0%	100.0%

(1) Represents the total number of shares of the particular class of Greenlane's Common Stock held as of the date of this Quarterly Report on Form 10-Q.
(2) Represents the number of shares of Greenlane's Class A common stock that will be outstanding assuming the exchange of all outstanding shares of Class B common stock and Class C common stock upon redemption of Common Units. Shares of Class B common stock and Class C common stock, as the case may be, will be cancelled, without consideration, on a one-to-one basis in the case of Class B common stock or a three-to-one basis in the case of Class C common stock, if Greenlane redeems or exchanges Common Units held by such holders for shares of Class A common stock pursuant to the terms of the Operating Agreement
(3) Represents the indirect economic interest in the Operating Company through the holders' ownership of Common Stock.
(4) Represents the aggregate voting interest in Greenlane through the holders' ownership of Common Stock. Each share of Class A common stock, Class B common stock and Class C common stock entitles its holder to one vote per share on all matters submitted to a vote of Greenlane's stockholders.
(5) Represents the direct economic interest in Greenlane Holdings, Inc., the holding company, through the holders' ownership of Class A common stock.
(6) Represents shares of Class A common stock issued to the prior holders of convertible notes upon conversion of such convertible notes at a settlement price equal to 80% of the IPO price.

Stock Option Grants

On April 17, 2019, in connection with the IPO and the Transactions, Greenlane adopted the Greenlane Holdings, Inc. 2019 Equity Incentive Plan (the "Plan"). The Plan provides eligible participants with compensation opportunities in the form of cash and equity incentive awards. The Plan is designed to enhance Greenlane's ability to attract, retain and motivate its executive officers and other key management and incentivizes executives to increase Greenlane's long-term growth and equity value in alignment with the interests of Greenlane's stockholders. An aggregate of 5,000,000 shares of Class A Common Stock were originally reserved for future issuance under the Plan. In addition, the number of shares of Class A Common Stock available for future issuance under the Plan will increase annually, without further board of directors or stockholder approval, on January 1 of each calendar year beginning January 1, 2020 and ending on and including January 1, 2028. On April 17, 2019, Greenlane granted 176,784 stock options pursuant to the Plan with an exercise price of $17.00, the public offering price per share of the Class A common stock in the IPO.

GREENLANE HOLDINGS, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	$ 2,776,775	$ 7,341,485
Accounts receivable, net of allowance of $602,711 and $657,513 at March 31, 2019 and December 31, 2018, respectively	10,808,716	8,217,787
Inventories, net	36,073,121	29,502,074
Vendor deposits	7,958,256	7,917,148
Deferred offering costs	2,904,342	2,284,423
Other current assets	2,623,986	1,842,253
Total current assets	63,145,196	57,105,170
Property and equipment, net	12,727,827	11,640,824
Intangible assets, net	5,984,327	3,662,409
Goodwill	8,995,597	5,445,691
Operating lease right-of-use assets	2,239,906	-
Investments	575,000	75,000
Deferred financing costs, net	78,926	92,080
Total assets	$ 93,746,779	$ 78,021,174
LIABILITIES		
Current liabilities		
Accounts payable	$ 24,399,095	$ 20,226,696
Accrued expenses and other current liabilities	9,800,899	9,945,156
Current portion of notes payable	171,117	168,273
Current portion of operating leases	641,596	-
Current portion of finance leases	100,831	94,667
Total current liabilities	35,113,538	30,434,792
Convertible notes	60,312,500	40,200,000
Note payable, less current portion and debt issuance costs, net	8,136,898	8,176,343
Operating leases, less current portion	1,760,163	-
Finance leases, less current portion	236,899	236,709
Line of credit and other liabilities	881,033	-
Total long-term liabilities	71,327,493	48,613,052
Total liabilities	106,441,031	79,047,844
Commitments and contingencies (Note 9)		
REDEEMABLE CLASS B UNITS	15,388,970	10,032,509
MEMBERS' DEFICIT		
Class A units	(27,824,783)	(10,773,187)
Accumulated other comprehensive loss	(258,439)	(285,992)
Total members' deficit	(28,083,222)	(11,059,179)
Total liabilities, redeemable Class B units and members' deficit	$ 93,746,779	$ 78,021,174

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

GREENLANE HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31,	
	2019	2018
Net sales	$ 49,897,604	$ 43,257,643
Cost of sales	40,910,819	34,204,549
Gross profit	8,986,785	9,053,094
Operating expenses:		
Salaries, benefits and payroll taxes	8,082,124	2,947,006
General and administrative	5,384,125	3,534,389
Depreciation and amortization	684,077	242,409
Total operating expenses	14,150,326	6,723,804
(Loss) income from operations	(5,163,541)	2,329,290
Other (expense) income, net:		
Change in fair value of convertible notes	(12,062,500)	-
Interest expense	(601,880)	(42,259)
Other income, net	175,237	93,515
Total other (expense) income, net	(12,489,143)	51,256
(Loss) income before income taxes	(17,652,684)	2,380,546
Provision for income taxes	11,665	81,817
Net (loss) income	$ (17,664,349)	$ 2,298,729

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

GREENLANE HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	For the three months ended March 31,	
	2019	**2018**
Net (loss) income	$ (17,664,349)	$ 2,298,729
Other comprehensive income (loss):		
Foreign currency translation adjustments	27,553	(19,925)
Total comprehensive (loss) income	$ (17,636,796)	$ 2,278,804

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

GREENLANE HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CLASS B UNITS AND MEMBERS' DEFICIT
(Unaudited)

	Redeemable Class B Units	Class A Units	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' (Deficit) Equity
Balance, December 31, 2018	$ 10,032,509	$ (10,773,187)	-	$ (285,992)	$ (11,059,179)
Issuance of redeemable Class B units, net of issuance costs (Note 12)	6,514,325	-	-	-	-
Redemption of Class A and redeemable Class B (Note 10)	(416,318)	(2,602,431)	-	-	(2,602,431)
Equity-based compensation (Note 13)	2,303,693	190,504	-	-	190,504
Net loss	(3,045,239)	(14,619,110)	-	-	(14,619,110)
Member distributions	-	(20,559)	-	-	(20,559)
Effects of foreign currency exchange	-	-	-	27,553	27,553
Balance, March 31, 2019	$ 15,388,970	$ (27,824,783)	-	$ (258,439)	$ (28,083,222)

	Redeemable Class B Units	Class A Units	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' (Deficit) Equity
Balance, December 31, 2017	$ -	$ 6,449,921	$ 3,154,623	$ (208,711)	$ 9,395,833
Reclassification of retained earnings to Class A units capital account	-	3,154,623	(3,154,623)	-	-
Issuance of redeemable Class B membership units	8,890,000	-	-	-	-
Net income	76,624	2,222,105	-	-	2,222,105
Member distributions	-	(1,007,175)	-	-	(1,007,175)
Effects of foreign currency exchange	-	-	-	(19,925)	(19,925)
Balance, March 31, 2018	$ 8,966,624	$ 10,819,474	$ -	$ (228,636)	$ 10,590,838

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

GREENLANE HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities:		
Net (loss) income	$ (17,664,349)	$ 2,298,729
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	684,077	242,409
Amortization of deferred financing costs	18,257	3,308
Debt issuance costs on convertible notes	422,383	-
Equity-based compensation expense	2,850,879	-
Deferred IPO offering costs	(581,973)	-
Change in fair value of convertible notes	12,062,500	-
Provision for doubtful accounts	602,711	266,831
Provision for slow moving or obsolete inventory	81,123	32,510
Income from equity method investments in associated entities	-	(27,015)
Other	(5,904)	-
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	(2,647,033)	(2,098,100)
Vendor deposits	1,658,532	(3,002,803)
Inventories	(6,652,170)	(10,949,803)
Other current assets	(719,512)	(716,273)
Accounts payable	1,962,634	10,778,643
Accrued expenses	844,260	335,142
Payments of operating leases	(178,083)	-
Net cash used in operating activities	(7,261,668)	(2,836,422)
Cash flows from investing activities:		
Acquisition of a subsidiary, net of cash acquired	90,685	785,081
Purchase of property and equipment, net	(509,110)	(218,254)
Purchase of intangible assets, net	(54,003)	(19,480)
Investments	(500,000)	-
Net cash (used in) provided by investing activities	(972,428)	547,347
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	8,050,000	-
Payment of debt issuance costs	(1,589,500)	
Payments on long-term debt	-	(29,204)
Proceeds from notes payable	-	167,922
Payments on notes payable	(41,704)	-
Proceeds from related parties - line of credit, net	-	4,079,456
Proceeds from line of credit, net	325,000	-
Increase in finance lease obligations	-	135,963
Payments of finance lease obligations	(24,710)	(19,283)
Deferred offering costs paid	(37,946)	-
Redemption of Class A and Class B units	(3,018,748)	-
Member distributions	(20,559)	(1,007,175)
Net cash provided by financing activities	3,641,833	3,327,679
Effects of exchange rate changes on cash	27,553	(19,925)
Net (decrease) increase in cash	(4,564,710)	1,018,679
Cash, as of beginning of the period	7,341,485	2,080,397
Cash, as of end of period	$ 2,776,775	$ 3,099,076
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 601,880	$ 38,951
Cash paid during the period for income taxes	$ 79,939	$ -
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 178,083	$ -
Operating cash flows for finance leases	$ 6,139	$ 4,134
Financing cash flows for finance leases	$ 24,710	$ 26,344
Non-cash investing activities and financing activities:		
Redeemable Class B Units issued for acquisition of a subsidiary	$ 6,664,000	$ 8,890,000
Deferred offering costs included in accounts payable and accrued expenses	$ 2,067,554	$ -
Leased assets obtained in exchange for new finance lease liabilities	$ 36,968	$ 138,562
Leased assets obtained in exchange for new operating lease liabilities	$ 2,411,348	-

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

GREENLANE HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BUSINESS OPERATIONS

Greenlane Holdings, LLC (formerly known as Jacoby Holdings LLC) ("the Operating Company") is a company with investments in several companies that merchandise vaporizers and other products in the United States and Canada. Through its operating subsidiaries, the Operating Company distributes to retailers through its wholesale operations and to consumers through its e-commerce activities. The Operating Company operates four distribution centers in the United States and two distribution centers in Canada. The Operating Company was organized under the laws of the state of Delaware on October 28, 2015, and is based in Boca Raton, Florida.

Greenlane Holdings, Inc. ("Greenlane") was formed as a Delaware corporation on May 2, 2018. Greenlane is a holding company that was formed for the purpose of completing an underwritten IPO of shares of its Class A common stock and other related Transactions in order to carry on the business of the Operating Company and its subsidiaries. On April 23, 2019, Greenlane completed its IPO of 6,000,000 shares of Class A common stock, which was comprised of 5,250,000 shares of Class A common stock sold by Greenlane and 750,000 shares sold by certain selling stockholders (comprised of Aaron LoCascio, Greenlane's Chief Executive Officer, Adam Schoenfeld, Greenlane's Chief Strategy Officer, and an affiliated entity of Messrs. LoCascio and Schoenfeld), in each case at a public offering price of $17.00 per share. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from the selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. Greenlane did not receive any proceeds from the sale of Class A common stock by the selling stockholders. The sale of shares of Class A common stock by Greenlane generated aggregate net proceeds to Greenlane, after deducting the underwriting discounts and commissions and offering expenses payable by the Operating Company, of approximately $80.4 million. Greenlane contributed all of the net proceeds to the Operating Company in exchange for a number of Common Units equal to the number of shares of Class A common stock sold by Greenlane in the IPO at a price per Common Unit equal to the IPO price per share of Class A common stock. After giving effect to the IPO and the related Transactions, Greenlane owned approximately 23.9% of the Operating Company's outstanding Common Units. As a result of the IPO, Greenlane is the sole manager of the Operating Company and, as a result, Greenlane operates and controls all of the business and affairs of the Operating Company, and through the Operating Company and its subsidiaries, continues to conduct the business now conducted by these subsidiaries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for fair financial statement presentation have been made. Certain reclassifications have been made to prior year amounts or balances to conform to the presentation adopted in the current year. The consolidated results of operations for the three-months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, or any other future annual or interim period. These condensed consolidated financial statements should be read in conjunction with the Operating Company's audited consolidated financial statements and related notes for the year ended December 31, 2018, which are included in Greenlane's final prospectus, dated April 17, 2019, filed with the SEC on April 22, 2019 pursuant to Rule 424(b) of the Securities Act of 1933, as amended.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Operating Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates that affect certain reported amounts and disclosures. These estimates are based on management's knowledge and experience. Significant items subject to such estimates include the accounts receivable allowance for doubtful accounts, the allowance for slow-moving or obsolete inventory, assumptions used in the calculation of equity-based compensation, and the convertible notes valuation. Accordingly, actual results could differ from those estimates.

Segment Reporting

The Operating Company's chief operating decision maker ("CODM") is Aaron LoCascio, Greenlane's Chief Executive Officer. The CODM reviews operating results and operating plans and makes resource allocation decisions on an entity-wide or aggregate basis. The Operating Company has two distinct operating segments, which are comprised of the United States operations and Canadian operations. The Canadian operating segment consists of the Operating Company's wholly-owned, Canada-based, subsidiary. The United States operating segment is comprised of all other operating subsidiaries. Beginning with the quarter ended March 31, 2019, the Operating Company had a change in reportable segments as the Canadian operating segment no longer met the quantitative criteria to be aggregated with the United States operating segment as one reportable segment. The United States and Canada reportable segments have been identified based on how the CODM manages the business, makes operating decisions and evaluates operating performance. See "Note 15—Segment Reporting."

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of the net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired, and liabilities assumed from contingencies, are recognized at fair value if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the condensed consolidated statement of operations from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. See "Note 12— Business Acquisition."

Equity-Based Compensation

The Operating Company granted incentive awards in the form of Class B redeemable units and profits interest units to certain executives and other employees of the Operating Company. The Operating Company accounts for these grants of equity awards to employees in accordance with ASC Topic 718, *Compensation - Stock Compensation*. This standard requires compensation expense to be measured based on the estimated fair value of share-based awards on the date of grant and recognized as expense over the requisite service period, which is generally the vesting period. Equity-based compensation costs are recognized using a graded vesting schedule. For liability-classified awards, the Operating Company records fair value adjustments up to and including the settlement date. Changes in the fair value of the equity-based compensation liability that occur during the requisite service period are recognized as compensation cost over the vesting period. Changes in the fair value of the equity-based compensation liability that occur after the end of the requisite service period but before settlement, are compensation cost of the period in which the change occurs. The Operating Company accounts for forfeitures as they occur. See "Note 13—Equity-Based Compensation."

Fair Value Measurements

The Operating Company applies the provisions of ASC Topic 820, *Fair Value Measurements*, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The Operating Company determines the fair market values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

Level 1 Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of the Operating Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term debt, are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The fair value of long-term debt is the estimated amount the Operating Company would have to pay to repurchase the debt, including any premium or discount attributable to the difference between the stated interest rate and market rate of interest at each balance sheet date. As of March 31, 2019 and 2018, the carrying amount of the Operating Company's long-term debt approximated its fair value.

The Operating Company has no Level 1 or Level 2 financial instruments. There were no transfers between Level 1, 2 or 3 for the period presented. Level 3 liabilities consist of the convertible notes. See "Note 6—Long Term Debt" for further discussion regarding the convertible notes.

Cash

For purposes of reporting cash flows, the Operating Company considers cash on hand, checking accounts, and savings accounts to be cash. The Operating Company considers all highly-liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. The Operating Company places its cash with high credit quality financial institutions, which provide insurance through the Federal Deposit Insurance Corporation. At times, the balance in these accounts may exceed federal insured limits. The Operating Company performs periodic evaluations of the relative credit standing of these institutions and does not expect any losses related to such concentrations. As of March 31, 2019 and December 31, 2018, approximately $170,000 and $204,000, respectively, of the Operating Company's cash balances were in foreign bank accounts and uninsured. As of March 31, 2019 and December 31, 2018, the Operating Company had no cash equivalents.

Accounts Receivable, net

Accounts receivable represent amounts due from customers for merchandise sales and are recorded when product has shipped. An account is considered past due when payment has not been rendered by its due date based upon the terms of the sale. Generally, accounts receivable are due 30 days after the billing date. The Operating Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of collections as well as current credit conditions. Accounts are written off as uncollectible on a case-by-case basis. Accounts receivable were reported net of the allowance for doubtful accounts of $603,000 and $658,000 at March 31, 2019 and December 31, 2018, respectively. Accounts receivable are pledged as collateral for the line of credit. See "Note 6—Long Term Debt."

Inventories, net

Inventories consist principally of finished goods that are valued at the lower of cost or net realizable value on a weighted average cost basis. The Operating Company has established an allowance for slow-moving or obsolete inventory based upon assumptions about future demands and market conditions. At March 31, 2019 and December 31, 2018, the reserve for obsolescence was approximately $293,000 and $212,000, respectively. Inventory is pledged as collateral for the line of credit. See "Note 6—Long Term Debt."

Deferred Financing Costs

Costs incurred in obtaining certain debt financing are deferred and amortized over the respective terms of the related debt instruments using the interest method for term debt and the straight-line method for revolving debt. The debt issuance costs related to the revolving line of credit are presented as an asset on the condensed consolidated balance sheets while the debt issuance costs related to the real estate note are presented net against the long-term debt in the condensed consolidated balance sheets. As of March 31, 2019 and December 31, 2018, the Operating Company had deferred debt issuance costs totaling approximately $79,000 and $92,000, respectively, in connection with the issuance of long-term debt. The amortization of deferred debt issuance costs is included in interest expense and amounted to approximately $18,000 and $3,000 during the three months ended March 31, 2019 and 2018, respectively.

The Operating Company accounts for the cost of issuing equity instruments to effect business combinations as a reduction of the otherwise determined fair value of the equity instruments issued. The Operating Company expenses any fees not associated with arranging equity or debt financing as incurred.

Property and Equipment, net

Property and equipment are stated at cost or, if acquired through a business acquisition, fair value at the date of acquisition. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the asset, except for leasehold improvements, which are depreciated over the shorter of the estimated useful lives of the assets or the lease term. Upon the sale or retirement of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is credited or charged to income. Expenditures for repairs and maintenance are expensed when incurred.

Impairment of Long-Lived Assets

The Operating Company assesses the recoverability of the carrying amount of its long lived-assets, including property and equipment and finite-lived intangibles, whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be assessed when estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. Asset groups have identifiable cash flows and are largely independent of other asset groups. Measurement of an impairment loss is based on the excess of the carrying amount of the asset group over its fair value. There was no impairment loss for long-lived assets for the three months ended March 31, 2019 and 2018. See "Note 3—Property and Equipment."

Intangible Assets, net

Intangible assets consist of domain names, intellectual property, distribution agreements, proprietary technology, trademarks and tradenames, and other rights. Intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis. The straight-line method of amortization represents the Operating Company's best estimate of the distribution of the economic value of the identifiable intangible assets. Intangible assets are carried at cost less accumulated amortization. The Operating Company assesses the recoverability of finite-lived intangible assets in the same manner as for property and equipment, as described above. There were no impairment charges for the three months ended March 31, 2019 and 2018. See "Note 4—Goodwill and Intangible Assets."

Goodwill

In accordance with ASC Topic 350, *Intangibles—Goodwill and Other*, the Operating Company tests goodwill for impairment for each reporting unit on an annual basis, or when events or circumstances indicate the fair value of a reporting unit is below its carrying value. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in business combinations. Goodwill is tested for impairment at least annually in the fourth quarter and between annual tests if there are indicators of impairment that suggest a decline in the fair value of a reporting unit. Judgment is involved in determining if an indicator or change in circumstances relating to impairment has occurred. Such changes may include, among others, a significant decline in expected future cash flows, a significant adverse change in the business climate, and unforeseen competition. No goodwill impairment charges were recognized during the three months ended March 31, 2019 and 2018. See "Note 4—Goodwill and Intangible Assets."

Investments

Equity method investments

Investee companies that are not consolidated, but over which the Operating Company exercises significant influence, are accounted for under the equity method of accounting. Under the equity method of accounting, an investee company's accounts are not reflected within the Operating Company's condensed consolidated balance sheets and statements of operations; however, the Operating Company's share of the earnings or losses of the investee company is reflected in the caption "Other income, net" in the condensed consolidated statements of operations. The Operating Company's carrying value in an equity method investee company is reflected in the caption "Investments" in the Operating Company's condensed consolidated balance sheets. When the Operating Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Operating Company's consolidated financial statements unless the Operating Company has guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Operating Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

The Operating Company's investments that are accounted for on the equity method of accounting consist of a 50% interest in two separate joint venture entities. The aggregate investment in the two joint venture entities amounted to approximately $75,000 at March 31, 2019 and December 31, 2018. The operating activity related to the joint ventures was immaterial for the three months ended March 31, 2019 and 2018.

Equity securities

The Operating Company's equity securities consist of an investment in an unaffiliated entity (ownership 1.71%). The Operating Company has determined that its ownership does not provide it with significant influence over the operations of this investee. Accordingly, the Operating Company accounts for its investment in this entity as equity securities. The investee is a private entity and its equity securities do not have a readily determinable fair value. Equity securities without a readily determinable fair value are measured at cost minus impairment, if any, and are adjusted to fair value when an observable price change can be identified.

Vendor Deposits

Vendor deposits represent prepayments made to vendors for inventory purchases. A significant number of vendors require prepayment for inventory purchases made by the Operating Company.

Deferred Offering Costs

The Operating Company capitalized certain legal, accounting, and other third-party fees that were directly attributable to Greenlane's IPO. After consummation of the IPO, these costs will be recorded in equity as a reduction from the proceeds of the IPO.

Foreign Currency Translation

The accompanying condensed consolidated financial statements are presented in United States (U.S.) dollars. The functional currency of one of the Operating Company's wholly-owned, Canada-based subsidiaries is the Canadian dollar. The assets and liabilities of this subsidiary are translated into U.S. dollars at current exchange rates and revenue and expenses are translated at average exchange rates for the year. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The foreign currency translation adjustments are included in accumulated other comprehensive loss, a separate component of members' deficit in the condensed consolidated balance sheets. Other exchange gains and losses are reported in the condensed consolidated statements of operations.

Comprehensive (Loss) Income

Comprehensive (loss) income includes net (loss) income as currently reported by the Operating Company, adjusted for other comprehensive items. Other comprehensive items for the Operating Company consist of foreign currency translation gains and losses.

Advertising

Advertising costs are expensed as incurred and are included in general and administrative expenses in the accompanying condensed consolidated statements of operations. Advertising costs totaled approximately $1,282,000 and $841,000 for the three months ended March 31, 2019 and 2018, respectively.

Income Taxes

The Operating Company is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, taxable income or loss is passed through to and included in the taxable income of the Operating Company's members, including Greenlane. Accordingly, the consolidated financial statements do not include a provision for federal income taxes. The Operating Company is liable for various other state and local taxes and is subject to taxes in foreign jurisdictions. Therefore, the provision for income taxes includes only income taxes on income from the Operating Company's Canadian subsidiary and state income tax, if any, in the consolidated financial statements. Income tax amounts reflected in the accompanying financial statements relate primarily to income generated by the Operating Company's Canadian subsidiary and are based upon an estimated annual effective tax rate of approximately 26.5%.

The Operating Company utilizes a two-step approach for recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position will be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. There were no amounts required to be recorded at March 31, 2019 and December 31, 2018 related to uncertain tax positions.

Revenue Recognition

The Operating Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Under ASC 606, the Operating Company recognizes revenue when a customer obtains control of the promised goods or services. The amount of revenue that is recorded reflects the consideration that the Operating Company expects to receive in exchange for those goods or services, net of any variable consideration (e.g., rights to return product, sales incentives, others) and any taxes collected from customers and subsequently remitted to governmental authorities. The Operating Company uses a best estimate approach to measure variable consideration which approximates the expected value method. The Operating Company applies the following five-step model in order to determine this amount: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Operating Company satisfies a performance obligation. The Operating Company only applies the five-step model to contracts when it is probable that the Operating Company will collect the consideration it is entitled to in exchange for the goods or services the Operating Company transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, management reviews the contract to determine which performance obligations must be delivered and which of these performance obligations are distinct. The Operating Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied.

The Operating Company generates revenue primarily from the sale of finished products to customers, whereby each product unit represents a single performance obligation. The performance obligation is satisfied when the customer obtains control of the product, which typically occurs at the time of shipping. Upon shipping, the customer has legal title of the product and bears the significant risks and rewards of ownership, including the right to sell or redirect the product. As such, customer orders are recorded as revenue once the order is shipped from one of the Operating Company's distribution centers. The Operating Company's performance obligations for services are satisfied when the services are rendered within the arranged service period. Total service revenue is not material and accounted for less than 0.5% of revenues for the three months ended March 31, 2019 and 2018. The Operating Company provides no warranty on products sold. Product warranty is provided by the manufacturers.

The Operating Company elected to account for shipping and handling expenses that occur after the customer has obtained control of products as a fulfillment activity in cost of sales. Shipping and handling fees charged to customers are included in net sales upon completion of the Operating Company's performance obligations.

Revenue is presented net of sales taxes, discounts and expected refunds.

Product revenues are recorded net of estimated rebates or sales incentives as well as estimated product returns as elements of variable consideration. The actual amounts of consideration ultimately received may differ from the Operating Company's estimates. If actual results in the future vary from the Operating Company's estimates, the Operating Company will adjust these estimates, which would affect net revenue from products in the period such variances become known. The Operating Company estimates product returns based on historical experience and records them on a gross basis as a refund liability that reduces the net sales for the period. The Operating Company analyzes actual historical returns, current economic trends and changes in order volume when evaluating the adequacy of the sales returns allowance in any accounting period. The liability for returns is included in accrued expenses on the Operating Company's condensed consolidated balance sheets and was approximately $464,000 and $460,000 at March 31, 2019 and December 31, 2018, respectively. Included in other current assets is an asset totaling approximately $285,000 as of March 31, 2019 and December 31, 2018, relating to the recoverable cost of merchandise estimated to be returned by customers.

The Operating Company has an established a supply chain for premium, patented, child-resistant packaging, closed-system vaporization solutions and custom-branded retail products. For these product offerings, the Operating Company generally receives a deposit from the customer (generally 50% of the total order cost, but the amount can vary by customer contract), when an order is placed by a customer. These orders are typically completed within six weeks to three months from the date of order, depending on the complexity of the customization and the size of the order. Customer deposits, which represent deferred revenue, are included in accrued expenses on the Operating Company's condensed consolidated balance sheets and were approximately $2.7 million and $3.2 million at March 31, 2019 and December 31, 2018, respectively. See "Note 5—Composition of Certain Financial Statement Captions."

The Operating Company holds several exclusive distribution agreements with its manufacturers that are evaluated against the criteria outlined in ASC 606-10-55,*Principal versus Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned. In all arrangements, the Operating Company determined that it acts as the principal in the transaction, controlling the good or service before it is transferred to the customer. As such, the Operating Company records gross revenue for such arrangements.

The Operating Company applies the practical expedient provided for by ASC 606 by not adjusting the transaction price for significant financing components for periods less than one year. The Operating Company also applies the practical expedient provided for by ASC 606 based upon which the Operating Company generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within salaries, benefits and payroll tax expenses in the condensed consolidated statements of operations. Furthermore, the Operating Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Earnings per Unit

Prior to the amendment and restatement of the LLC Agreement on April 17, 2019, in connection with the IPO the Operating Company's membership interests were defined as percentage interests in the LLC Agreement, as the LLC Agreement did not define a number of membership units outstanding or authorized. As a result, a calculation of basic and diluted earnings (loss) per unit is not presented in the accompanying financial statements, as a denominator to the calculation could not be determined. No potentially dilutive securities existed for the three months ended March 31, 2019 and 2018. See "Note 10—Members' Deficit."

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which, among other things, requires lessees to recognize substantially all leases on their balance sheets and disclose key information about leasing arrangements. The new standard establishes a right of use ("ROU") model that requires a lessee to recognize a ROU asset and liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations. The new standard became effective for the Operating Company on January 1, 2019. The Operating Company adopted this standard beginning January 1, 2019 using the modified retrospective transition approach. See "Note 7—Leases" for further discussion regarding the Operating Company's adoption of the new standard.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting* ASU 2018-07 provides guidance on accounting for equity-based awards issued to nonemployees. The standard is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Operating Company adopted this standard beginning January 1, 2019. Adoption of the new standard did not have a material impact on the Operating Company's financial statements.

Recently Issued Accounting Guidance Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement, Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),* which eliminates, adds and modifies certain disclosure requirements for fair value measurements. For example, entities will no longer have to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those years. Entities are permitted to early adopt the entire standard or only the provisions that eliminate or modify the requirements. The Operating Company is currently evaluating the new guidance, but does not expect it to have a material impact on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses*. The standard requires the use of an "expected loss" model on certain types of financial instruments. The standard also amends the impairment model for available-for-sale securities and requires estimated credit losses to be recorded as allowances rather than as reductions to the amortized cost of the securities. This standard is effective for the Operating Company for fiscal years, and interim periods within those years, beginning January 1, 2020, with early adoption permitted. The Operating Company is evaluating the new guidance, but does not expect it to have a material impact on its financial statements.

NOTE 3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at costs less accumulated depreciation and amortization:

	March 31, 2019	December 31, 2018	Estimated useful life
Furniture, equipment and software	$ 2,724,793	$ 2,094,911	3 - 7 years
Personal property	1,095,360	1,090,282	5 years
Leasehold improvements	990,447	341,672	Lesser of lease term or 5 years
Land improvements	601,370	601,370	15 years
Building	7,911,703	7,772,987	39 years
Land	690,705	690,705	
	14,014,378	12,591,927	
Less: accumulated depreciation	1,286,551	951,103	
Property and equipment, net	$ 12,727,827	$ 11,640,824	

Property and equipment include assets recorded under finance leases. See “Note 7—Leases.” Property and equipment are pledged as collateral for the Operating Company line of credit. See “Note 6—Long Term Debt.”

Depreciation expense for property and equipment (excluding assets recorded under finance leases) for the three months ended March 31, 2019 and 2018 was approximately $357,000 and $54,000, respectively.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment at least annually. When evaluating whether goodwill is impaired, the Operating Company performs a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Operating Company would then recognize an impairment charge for the amount by which carrying amount exceeds the reporting unit’s estimated fair value; however, goodwill would not be reduced below zero.

The Operating Company tests for impairment of goodwill annually in the fourth quarter or when management of the Operating Company deems that a triggering event has occurred. There were no impairments to goodwill during the three months ended March 31, 2019 and 2018. For three months ended March 31, 2019, the Operating Company recognized approximately $3.5 million in goodwill related to a business acquisition. The goodwill generated from the business acquisition is primarily related to the value placed on the expected business synergies. See “Note 12—Business Acquisition.”

Identified intangible assets consisted of the following at the dates indicated below:

	March 31, 2019			
	Gross carrying amount	Accumulated amortization	Carrying value	Estimated useful life
Domain Names	$ 134,993	$ (58,607)	$ 76,386	15 years
Design Libraries	1,677,000	(23,292)	1,653,708	15 years
Distribution Agreements	650,000	(451,389)	198,611	5 years
Proprietary Technology	1,040,000	(710,667)	329,333	5 years
Trademarks and Tradenames	3,219,539	(572,667)	2,646,872	5-15 years
Customer Relationships	1,196,000	(259,133)	936,867	5 years
Non-competition Agreements	218,000	(118,083)	99,917	2 years
Other Intangibles	47,547	(1,507)	46,040	5-15 years
	$ 8,188,261	$ (2,204,934)	$ 5,984,327	

	December 31, 2018			
	Gross carrying amount	Accumulated amortization	Carrying value	Estimated useful life
Domain Names	$ 131,000	$ (59,744)	$ 71,256	15 years
Distribution Agreements	650,000	(397,222)	252,778	5 years
Proprietary Technology	1,040,000	(658,667)	381,333	5 years
Trademarks and Tradenames	2,284,886	(458,638)	1,826,248	5-10 years
Customer Relationships	1,196,000	(199,333)	996,667	5 years
Non-competition Agreements	218,000	(90,833)	127,167	2 years
Other Intangibles	22,003	(15,043)	6,960	5 years
	$ 5,541,889	$ (1,879,480)	$ 3,662,409	

Amortization expense for the three months ended March 31, 2019 and 2018 was approximately $327,000 and $187,000, respectively.

NOTE 5. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

The following table summarizes the composition of accrued expenses and other current liabilities as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Accrued expenses and other current liabilities:		
Customer deposits	$ 2,684,570	$ 3,226,479
Accrued offering costs	2,067,553	1,499,930
Refund liability	464,395	459,416
Payroll related including bonus	2,182,480	1,313,695
Accrued taxes, state and income	320,299	664,659
Accrued marketing fees and royalties	312,262	804,370
Other	1,769,340	1,976,607
Total	$ 9,800,899	$ 9,945,156

NOTE 6. LONG TERM DEBT

The Operating Company's long-term debt, excluding operating lease liabilities and finance lease liabilities, consisted of the following amounts at the dates indicated:

	March 31, 2019	December 31, 2018
3.0% note payable to a lender in relation to a four-year vehicle loan for the purchase of a truck used in operations.	$ 16,654	$ 24,275
Revolving credit note with a lender for a $15,000,000 credit loan with a maturity date of August 23, 2020. Interest on the principal balance outstanding on the Note is due monthly at a rate of LIBOR plus 3.50% per annum.	325,000	-
Credit note with a lender for the purchase of the Company's corporate headquarters building with a maturity date of October 1, 2025. Interest on the principal balance outstanding on the note is due monthly at a rate of LIBOR plus 2.39% per annum.	8,425,717	8,459,800
Convertible notes issued in December 2018 and in January 2019	60,312,500	40,200,000
	69,079,871	48,684,075
Less unamortized debt issuance costs	(134,356)	(139,459)
Less current portion of long-term debt	(171,117)	(168,273)
Long-term debt, net, excluding operating leases and finance leases	$ 68,774,398	$ 48,376,343

Line of Credit

On October 1, 2018, the Operating Company, as the borrower, entered into an amended and restated revolving credit note (the "line of credit") with Fifth Third Bank, for a $15,000,000 revolving credit loan with a maturity date of August 23, 2020. Interest on the principal balance outstanding on the line of credit is due monthly at a rate of LIBOR plus 3.50% per annum provided that no default has occurred. The Operating Company's obligations under the line of credit are guaranteed by Jacoby & Co. Inc., all of the Operating Company's operating subsidiaries, and personally by each of Greenlane's Chief Executive Officer and Chief Strategy Officer, and are collateralized by the Operating Company's accounts receivable, inventory, property and equipment, deposit accounts, intangibles and other assets, and an assignment of member life insurance policies. The line of credit borrowing base is 80% of eligible accounts receivable plus 50% of eligible inventory. The line of credit covenants require a fixed charge coverage ratio of no less than 1.25, to be calculated on a quarterly basis on the last day of each calendar quarter. The Operating Company was in compliance with its covenants as of March 31, 2019.

Real Estate Note

On October 1, 2018, one of the Operating Company's wholly-owned subsidiaries closed on the purchase of a building for $10,000,000, which serves as the Company's corporate headquarters. The purchase was financed through a real estate term note (the "Real Estate Note") in the principal amount of $8,500,000, with one of the Operating Company's wholly-owned subsidiaries as the borrower and Fifth Third Bank as the lender. Principal amounts plus any accrued interest at a rate of LIBOR plus 2.39% are due monthly. The Operating Company's obligations under the Real Estate Note are secured by a mortgage on the property.

Convertible Notes

On December 21, 2018, the Operating Company issued an aggregate of $40.2 million in convertible promissory notes (the "convertible notes") and incurred related debt issuance costs of approximately $2.6 million. Approximately $15.1 million of the net cash proceeds received from the issuance of the convertible notes were used to redeem equity interests of existing members of the Operating Company. On January 4, 2019, the Operating Company issued an additional $8.1 million in convertible notes and incurred related debt issuance costs of approximately $0.4 million. Approximately $3.0 million of the net cash proceeds received from the issuance of the convertible notes were used to redeem equity interests of existing members of the Operating Company. The balance of the net proceeds has been or will be used for general corporate purposes.

The convertible notes did not accrue interest. On April 23, 2019, in connection with the closing of the IPO, Greenlane issued 3,547,776 shares of its Class A common stock to the holders of the convertible notes upon conversion of the convertible notes of the Operating Company at a settlement price equal to 80% of the IPO price per share; see "Note 16—Subsequent Events." The convertible notes also contained other settlement provisions if an IPO did not occur within 18 months of their issuance date. If an IPO did not occur within 18 months of the convertible notes' issuance, the holders of the convertible notes had the option to extend the initial maturity date by an additional 18 month period, in which case the convertible notes would have converted automatically into Class A common stock at a settlement price equity to 75% of the IPO price per share upon closing of an IPO. Furthermore, if the IPO did not occur prior to mandatory conversion date (that is, prior 18 or 36 months from issuance), the convertible notes (plus accrued interest) would have converted into shares of the Operating Company's newly designated Class A preferred stock at a settlement price per share that would be determined based on a stipulated valuation cap of the Operating Company and its fully diluted capitalization as of immediately prior to the conversion of the convertible notes. The convertible notes also contained additional redemption features contingent upon the occurrence of certain future events.

On issuance, the Operating Company elected to account for the convertible notes at fair value with any changes in the fair value recognized through the statements of operations until the conversion of the convertible notes. On issuance, the fair value of the convertible notes issued in January 2019 was determined to be equal to the $8.1 million principal amount of the convertible notes. Total debt issuance costs of approximately $0.4 million, incurred in connection with the issuance of the convertible notes in January 2019 and approximately $1.2 million incurred in January 2019 associated with the issuance of convertible notes in December 2018, were expensed and recognized as interest expense in the condensed consolidated statements of operations for the three months ended March 31, 2019. There were no related costs for the three months ended March 31, 2018. For the three months ended March 31, 2019, the Operating Company recognized a change in fair value of the convertible notes of $12.1 million in the accompanying condensed consolidated statements of operations.

The Operating Company determined the fair value of the convertible notes as of March 31, 2019 by determining the present value of the convertible notes if they were to settle either in shares of common stock upon closing of an IPO or in shares of preferred stock three years after issuance. Key valuation assumptions were as follows:

	March 31, 2019	
	IPO Scenarios	**Class A Preferred Stock Scenario**
Expected term (years)	0.1	2.8
Cost of equity	11.5%	12.5%
Discount for lack of marketability	--	20%
Weighting	99%	1%

The Operating Company determined the fair value of the convertible notes (including both the convertible notes issued in December 2018 and January 2019) as of March 31, 2019 to be $60.3 million. See "Note 16—Subsequent Events".

NOTE 7. LEASES

Lessee

The Operating Company leases warehouses, retail stores, regional offices, and machinery and equipment. Lease terms are generally three years to seven years for warehouses, office space and retail store locations, and up to seven years for other leased equipment and property.

The Operating Company adopted ASC Topic 842, *Leases* ("ASC 842") utilizing the modified retrospective adoption method with an effective date of January 1, 2019. The Operating Company made the election to not apply the recognition requirements in Topic 842 to short-term leases (i.e., leases of 12 months or less). Instead, a lessee may recognize the lease payments in profit or loss on a straight-line basis over the lease term. The Operating Company elected this accounting policy for all classes of underlying assets. In addition, in accordance with Topic 842, variable lease payments in the period in which the obligation for those payments is incurred are not included in the recognition of a lease liability or right-of-use asset. The Operating Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use assets represent the Operating Company's right to use an underlying asset for the lease term and lease liabilities represent the Operating Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. When available, the Operating Company uses the rate implicit in the lease to discount lease payments to present value. However, the Operating Company does have leases that do not provide a readily determinable implicit rate. For such leases, the Operating Company estimates the incremental borrowing rate to discount lease payments based on information available at lease commencement. The Operating Company uses instruments with similar characteristics when calculating its incremental borrowing rates. The Operating Company lease agreements do not contain any residual value guarantees. The Operating Company has elected to not separate non-lease components from the associated lease component for all underlying classes of assets with lease and non-lease components.

As of March 31, 2019, the Operating Company had 10 facilities financed under operating leases (consisting of warehouses, regional offices, and retail stores), with lease term expirations between 2019 and 2026.

Rent expense consists of monthly lease rents for warehouses, regional offices, and retail stores under the terms of the Operating Company's lease agreements recognized on a straight-line basis.

The following table provides details of the Operating Company's future minimum lease payments under finance lease liabilities and operating lease liabilities recorded on the Operating Company's condensed consolidated balance sheets as of March 31, 2019. The table below does not include commitments that are contingent on events or other factors that are currently uncertain or unknown.

	Finance Leases	Operating Leases	Total Finance and Operating Lease Obligations
Remainder of 2019	$ 107,880	$ 546,946	$ 654,826
2020	110,162	706,111	816,273
2021	87,174	418,540	505,714
2022	29,321	420,551	449,872
2023	3,193	371,085	374,278
Thereafter	-	222,021	222,021
Total minimum lease payments	$ 337,730	$ 2,685,254	$ 3,022,984
Less amount representing interest	36,257	283,495	319,752
Present value of minimum lease payments	$ 301,473	$ 2,401,759	$ 2,703,232
Less current portion	100,831	641,596	742,427
Long-term portion	$ 200,642	$ 1,760,163	$ 1,960,805

The majority of the Operating Company's finance lease obligations relate to leased warehouse equipment. Payments under the Operating Company's finance lease agreements are fixed for terms ranging from three to five years. Accounting for finance leases is substantially unchanged under Topic 842. Finance lease assets are recorded within property and equipment and the related liabilities are recorded as current portion of finance leases and in finance leases, less current portion, in the Operating Company's condensed consolidated balance sheets. The table below presents information related to the Operating Company's finance and operating leases:

	Three Months Ended March 31, 2019
Finance lease cost	
Amortization of leased assets	$ 28,613
Interest of lease liabilities	6,139
Operating lease costs	
Operating lease cost (a)	114,307
Variance lease cost (a)	65,077
Total lease cost	$ 214,136

(a) Expenses are classified within general and administrative expenses within the Operating Company's condensed consolidated statement of operations.

The table below presents lease-related terms and discount rates as of March 31, 2019:

	March 31, 2019
Weighted average remaining lease terms	
Operating leases	3.4 years
Finance leases	3.4 years
Weighted average discount rate	
Operating leases	4.9%
Finance leases	7.8%

Lessor

The Operating Company has five operating leases for office space leased to third-party tenants in its corporate headquarters building in Boca Raton, Florida (acquired in October 2018). For the three months ended March 31, 2019, the Operating Company had approximately $193,000 in rental income related to these operating leases, which is included in the "Other income, net" line item in the condensed consolidated statement of operations. The Operating Company did not have any rental income for the three months ended March 31, 2018.

The following table represents the maturity analysis of undiscounted cash flows related to lease payments which the Operating Company expects to receive from its existing operating lease agreements with tenants:

Rental Income		
Remainder of 2019	$	491,322
2020		619,432
2021		585,319
2022		75,883
2023		-
Thereafter		-
Total	$	1,771,956

NOTE 8. SUPPLIER CONCENTRATION

During the three months ended March 31, 2019 and 2018, the Operating Company's purchases of inventory for resale from two major vendors amounted to approximately 39.8% and 64.1%, respectively, of the Operating Company's total inventory purchases.

NOTE 9. COMMITMENTS AND CONTINGENCIES

In the ordinary course of its business, the Operating Company is involved in various legal proceedings involving a variety of matters. the Operating Company does not believe there are any pending legal proceedings that will have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

See "Note 7—Leases" for details of the Operating Company's future minimum lease payments under finance lease liabilities and operating lease liabilities recorded on the Operating Company's condensed consolidated balance sheet as of March 31, 2019.

NOTE 10. MEMBERS' DEFICIT

Effective February 20, 2018, the Operating Company amended and restated its limited liability company operating agreement (the "LLC Agreement") and reclassified all Common membership units to Class A common units and created redeemable Class B units in conjunction with the Operating Company's acquisition of a 100% interest in Better Life Holdings, LLC. As a result of the issuance of a second class of membership units, the beginning balance of retained earnings as of January 1, 2018 was reclassified to the Class A units capital account and net loss and other distributions occurring during 2018 and onward have been allocated to the Class A and redeemable Class B units capital accounts. The Class A common units have voting rights and participate in the residual equity of the Operating Company pro-rata with the redeemable Class B units, which have no voting rights. See "Note 11—Redeemable Class B Units." Each member's percentage interest in the Operating Company was as follows at March 31, 2019:

Member	**Class of Units**	**Percentage Interest**
Jacoby & Co. Inc.	Class A units	70.35%
Adam Schoenfeld	Class A units	12.41%
Better Life Products Investment Group, Inc.	Class B redeemable units	7.59%
Rochester Vapor Group, LLC	Class B redeemable units	2.01%
Pollen Gear LLC	Class B redeemable units	4.00%
Executive Management Team	Class B redeemable units	3.64%
		100.00%

The LLC Agreement does not provide a number of authorized membership units.

Pursuant to the Stock Redemption Settlement Agreement executed on December 21, 2018, the Operating Company used a portion of the net proceeds received from the sale of the convertible notes, which are discussed further in "Note 6—Long Term Debt," to redeem membership units from the Operating Company's members, substantially on a pro rata basis to the members' ownership interest percentage in the Operating Company; that is, the amount disbursed to Class A and redeemable Class B unit holders was determined by multiplying the total ownership interest percentage of each member by the total amount disbursed. On January 7, 2019, an aggregate of approximately $3.0 million was disbursed, of which approximately $2.6 million was disbursed to Class A unit holders and approximately $416,000 was disbursed to redeemable Class B unit holders. The redemption was settled in connection with Greenlane's IPO, which was completed on April 23, 2019. In consideration for such portion of the redemption amount paid to each member, each member delivered to the Operating Company a number of Common Units (as defined in "Note 16— Subsequent Events") equal to the amount of the redemption amount paid to such member, divided by the price per share at which the Class A common stock of Greenlane was sold in the IPO. No further payments were due to the members upon such settlement.

See "Note 16—Subsequent Events."

NOTE 11. REDEEMABLE CLASS B UNITS

The Operating Company issued Class B units as consideration for its recent business acquisitions, as well as in form of equity-based compensation to certain of the Operating Company's executive employees. The Operating Company's Class B units are non-voting and contained a put right whereby, at any time after the third anniversary of February 20, 2018 (in each case prior to an effective IPO or Capital Event), each of the holders of Class B units had the right to require that the Operating Company purchase all, but not less than all, of its Class B units at an aggregate price equal to the fair market value of the Class B units as of the date of the put notice (as defined), in the form of a cash payment. The Class B units did not contain any mandatory redemption provisions.

The Operating Company classified the Class B units outside of members' deficit as of March 31, 2019 and December 31, 2018 as the units contained contingent redemption features that were not solely within the Operating Company's control. The initial carrying value of the amount classified in temporary equity for the Class B units issued as consideration for business acquisitions was based on the issuance date fair value of the redeemable Class B units, net of issuance costs. See "Note 13 – Equity-Based Compensation" for further discussion of the accounting for Class B units issued as equity-based compensation.

As of March 31, 2019, the Operating Company determined that the Class B units were not probable of becoming redeemable as management believed the IPO to be probable to occur before the third anniversary of the LLC Agreement; accordingly, the carrying value of the Class B units was not adjusted. As discussed in "Note 16—Subsequent Events," Greenlane completed its IPO of6,000,000 shares of Class A common stock at a public offering price of$17.00per share on April 23, 2019 and became the sole manager of the Operating Company. As part of the Transactions, the Class B units were converted to Common Units of the Operating Company and the put right was eliminated.

NOTE 12. BUSINESS ACQUISITION

Effective January 14, 2019, the Operating Company acquired a 100% interest in Pollen Gear LLC ("Pollen Gear") in exchange for an aggregate four percent (4.0%) equity interest in the Operating Company. As consideration for the transaction, the Operating Company issued its Class B units, which, as described above in "Note 11—Redeemable Class B Units," were contingently redeemable by the holder. Pollen Gear has been consolidated in the Operating Company's consolidated financial statements commencing on January 14, 2019, the date of acquisition. The Pollen Gear acquisition was accounted for as a business combination under the acquisition method under ASC Topic 805, *Business Combinations*. The following table summarizes the preliminary purchase price allocation and the estimated fair value of the net assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation for Pollen Gear is preliminary pending completion of the fair value analysis of the acquired assets and liabilities:

Pollen Gear LLC		
Cash	$	90,685
Accounts receivable		546,606
Vendor deposits		1,699,640
Other deposits		18,377
Property and equipment, net		341,884
Trade name		918,000
Design libraries		1,677,000
Goodwill		3,549,906
Net liabilities		(2,178,098)
Total purchase price	$	6,664,000

At January 14, 2019, the Operating Company had accounts payable to Pollen Gear of approximately $550,000 and Pollen Gear had accounts receivable for the corresponding amount from the Operating Company. Furthermore, at the date of acquisition, the Operating Company had vendor deposits with Pollen Gear of approximately $1.7 million, and Pollen Gear had customer deposits for the corresponding amount due to the Operating Company. Both the vendor deposits and accounts payable recorded by the Operating Company and the corresponding customer deposits and accounts receivable recorded by Pollen Gear approximated fair value. As a result of the business acquisition, the preexisting relationship between the Operating Company and Pollen Gear was effectively settled. No gain or loss was recognized on this settlement.

The following unaudited pro forma financial information represents the combined results for the Operating Company and Pollen Gear for the three months ended March 31, 2019 and 2018 as if Pollen Gear had been acquired on January 1, 2018 and its results had been included in the consolidated results of the Operating Company beginning on that date:

	Three months ended March 31,			
	2019		**2018**	
Net Sales	$	49,897,604	$	43,257,643
Net (Loss) Income	$	(17,982,036)	$	2,405,968

The pro forma amounts have been calculated after applying the Operating Company's accounting policies to the financial statements of Pollen Gear and adjusting the combined results of the Operating Company and Pollen Gear (a) to remove Pollen Gear product sales to the Operating Company and to remove the cost incurred by the Operating Company related to products purchased from Pollen Gear, (b) to reflect the increased amortization expense that would have been charged assuming intangible assets identified in the acquisition of Pollen Gear had been recorded on January 1, 2018.

The impact of the Pollen Gear acquisition on the actual results reported by the combined entity in periods following the acquisition may differ significantly from that reflected in this pro forma information for a number of reasons. As a result, the pro forma information is not necessarily indicative of what the combined entity's financial condition or results of operations would have been had the acquisition been completed on the applicable dates of this pro forma financial information. In addition, the pro forma financial information does not purport to project the future financial condition and results of operations of the combined entity.

NOTE 13. EQUITY-BASED COMPENSATION

Profits Interests

In January and February 2019, the Operating Company entered into profits interest award agreements with several executives and employees of the Operating Company. The profits interests vest over a period of four to five years, as applicable to each holder. Any unvested portion of the profits interest would have vested upon the consummation of a capital event that was also a change in control (as defined in the LLC Agreement) of the Operating Company. The agreements specified that the award entitles the grantee to only participate in certain net profits and net proceeds in excess of a threshold amount (as defined) from a capital event that was also a change in control of the Operating Company, allocated and distributed to the profits interest from and after the grant date, and does not entitle the grantee to any other profits of the Operating Company, and as such was intended to constitute a profits interest under the LLC Agreement. The Operating Company determined that these awards represent equity instruments and such awards were accounted for under ASC Topic 718, *Stock Compensation*. The profits interest award provisions included both a service condition (explicit requisite service period) and a performance condition (i.e., change in control). Vesting of the profits interest awards was based on satisfying either the service or the performance condition. As a result, the initial requisite service period was the shorter of the explicit service period for the service condition or the explicit or implicit service period for the performance condition. Under ASC Topic 718, the total fair value of the profits interest awards is measured at grant date and compensation cost is recognized over the service vesting period or accelerated if a change of control occurred prior to the completion of service vesting. The grant date fair value of awards made in January and February 2019 was approximately $4.8 million. During the three months ended March 31, 2019, the Operating Company recorded compensation expense of approximately $230,000 related to the profits interests granted in January and February 2019, which is included in salaries, benefits and payroll taxes in the condensed consolidated statement of operations. As of March 31, 2019, there was approximately $4.6 million of unrecognized compensation costs related to unvested profits interests granted as equity-based compensation. This amount is expected to be recognized over a weighted-average period of 2.9 years.

See “Note 16—Subsequent Events.”

Redeemable Class B Units

The Operating Company determined that a portion of the redeemable Class B units granted as equity-based compensation met the criteria for liability classification under ASC 718. One-half of each holder’s award was deemed vested on the modification date, whereas the other half contained a service condition spanning from two to three years. For the liability-classified portion of the awards, the Operating Company will remeasure the fair value of the awards each reporting period until the awards are settled, and true up compensation cost each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

During the three months ended March 31, 2019, the Operating Company recorded compensation expense of approximately $2.6 million resulting from the incremental vesting and modification of one of the redeemable Class B units awards, which is included in salaries, benefits and payroll taxes in the condensed consolidated statement of operations. The Operating Company recorded an equity-based compensation liability of approximately $357,000 and $21,000 within accrued expenses in the accompanying condensed consolidated balance sheets at March 31, 2019 and December 31, 2018, respectively. As of March 31, 2019, there was approximately $2.9 million of unrecognized compensation costs related to unvested redeemable Class B units granted as equity-based compensation. This amount is expected to be recognized over a weighted-average period of 1.9 years. In order to determine the fair value of the Operating Company’s redeemable Class B units, which were granted as equity-based compensation, the Operating Company used Greenlane’s IPO price per share of $17.00. See “Note 16—Subsequent Events.”

NOTE 14. EMPLOYEE BENEFIT PLAN

The Operating Company has a 401(k)-retirement savings plan. Eligible employees must be at least 18 years of age and have completed six months of service. Participants are eligible to receive a matching contribution from the Operating Company of up to the first 3% of compensation plus 50% of participant contributions between 3% and 5% of compensation. Matching contributions, other than safe harbor contributions, vest 33% per year and are 100% vested after three years of service. Safe harbor matching contributions are 100% vested as of the date of the contribution. The Operating Company’s safe harbor matching contributions to the plan totaled approximately $62,000 and $53,000 for the three months ended March 31, 2019 and 2018, respectively.

NOTE 15. SEGMENT REPORTING

Segment information is prepared on the same basis that management reviews financial information for operational decision-making purposes. Beginning with the quarter ended March 31, 2019, the Operating Company had a change in reportable segments due to Canadian operations becoming a significant part of the business. As of March 31, 2019, the Operating Company had two operating segments, which also represented our reportable segments: (1) U.S. and (2) Canada. The U.S. reporting segment is comprised of Greenlane's U.S. operations while the Canadian reportable segment is comprised of Greenlane's Canadian operations. "Corporate and other" is comprised of unallocated corporate overhead expenses.

The reportable segments identified above are the business activities of the Operating Company for which discrete financial information is available and for which operating results are regularly reviewed by the Operating Company's chief operating decision maker to allocate resources and assess performance. At March 31, 2019, the Operating Company's chief operating decision maker was the Chief Executive Officer of the Operating Company. Upon completion of the IPO and as a result of Greenlane's control of the Operating Company's business and operations as the sole manager of the Operating Company, the Operating Company's chief operating decision maker is Greenlane's Chief Executive Officer.

Concurrent with the change in reportable segments, the Operating Company revised its prior period financial information to reflect comparable financial information for the new segment structure. Historical financial information presented herein reflects this change.

The table below provides information on revenues from external customers, intersegment revenues, and segment income for the reportable segments. Intersegment revenues are eliminated in consolidation.

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	United States	Canada	United States	Canada
Revenues from external customers	$ 43,131,546	$ 6,766,058	$ 41,432,320	$ 1,825,323
Intercompany revenues	608,870	40,628	1,736,306	91,860
Segment (loss) income [(1)]	(1,181,530)	133,946	2,391,880	110,661

(1) Segment (loss) income represents segment operating (loss) income.

The following is a reconciliation of total loss for the reportable segments to consolidated (loss) income from continuing operations before income taxes.

	Three Months Ended March 31,	
	2019	2018
Total segment (loss) income for reportable segments	$ (1,047,584)	$ 2,502,041
Corporate and other loss	(4,115,957)	(172,751)
Interest expense	(601,880)	(42,259)
Change in fair value of convertible notes	(12,062,500)	-
Other income, net	175,237	93,515
(Loss) income from continuing operations before income taxes	$ (17,652,684)	$ 2,380,546

No single customer represented more than 10% of the Operating Company's total consolidated revenue for the three months ended March 31, 2019 and 2018. As of March 31, 2019 and December 31, 2018, no single customer represented more than 10% of the Operating Company's accounts receivable balance.

NOTE 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 9, 2019, which is the date the financial statements were available to be issued.

Line of Credit

On April 5, 2019, the Operating Company entered into a second amendment (“Amendment No. 2 to Amended and Restated Credit Agreement,” or “Second Amendment”) to its first amended and restated credit agreement, dated October 1, 2018. The Second Amendment amends and restates the definition of the guarantor under the terms of the agreement, wherein both the Chief Executive Officer of Greenlane and the Chief Strategy Officer of Greenlane were released from all obligations under the Amended and Restated Guaranty to the Credit Agreement dated October 1, 2018. All other terms of the agreement remain unchanged.

Greenlane Holdings, Inc. Initial Public Offering

On April 23, 2019, Greenlane completed its IPO of 6,000,000 shares of Class A common stock, which was comprised of 5,250,000 shares of Class A common stock sold by Greenlane and 750,000 shares sold by certain selling stockholders (comprised of Aaron LoCascio, Greenlane’s Chief Executive Officer, Adam Schoenfeld, Greenlane’s Chief Strategy Officer, and an affiliated entity of Messrs. LoCascio and Schoenfeld), in each case at a public offering price of $17.00 per share. In addition, Greenlane issued 3,547,776 shares of Class A common stock to the holders of convertible notes upon conversion of such convertible notes at a settlement price equal to 80% of the IPO price. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. Greenlane did not receive any proceeds from the sale of Class A common stock by the selling stockholders. The sale of shares of Class A common stock by Greenlane generated aggregate net proceeds to Greenlane, after deducting the underwriting discounts and commissions and offering expenses payable by Greenlane, of approximately $80.4 million. Greenlane contributed all of the net proceeds to the Operating Company in exchange for a number of Common Units equal to the number of shares of Class A common stock sold by Greenlane in the IPO at a price per Common Unit equal to the IPO price per share of Class A common stock. After giving effect to the IPO and the related transactions and the use of the net proceeds from the IPO Greenlane owns approximately 23.9% of the Operating Company’s outstanding Common Units. As a result of the IPO, Adam Schoenfeld, Greenlane’s Chief Strategy Officer, and Jacoby & Co. Inc, an affiliated entity of Mr. Schoenfeld and Aaron LoCascio, Greenlane’s Chief Executive Officer, collectively control approximately83.0%of the combined voting power of Greenlane’s common stock as a result of their ownership of Greenlane’s Class C common stock, which are issued on a three-to-one basis with the number of Common Units owned and each share of common stock is entitled to one vote all matters submitted to a vote of Greenlane’s stockholders.

Greenlane is a holding company, with its principal asset being Common Units of the Operating Company. Immediately following the completion of the IPO, Greenlane became the sole manager of the Operating Company and its subsidiaries. All of the Company’s assets will continue to be held through, and its operations conducted by, the Operating Company.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the balance sheets and related notes of Greenlane Holdings, Inc. as of March 31, 2019 and December 31, 2018, the consolidated financial statements and related notes of Greenlane Holdings, LLC included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and with the audited consolidated financial statements and related notes of Greenlane Holdings, LLC for the year ended December 31, 2018, which are included in our prospectus, dated April 17, 2019, filed with the Securities and Exchange Commission (the "SEC") on April 22, 2019 pursuant to Rule 424(b) of the Securities Act of 1933, as amended, or the Prospectus. The terms "we," "our" and "us" as used herein refer to Greenlane Holdings, LLC and its consolidated subsidiaries ("the Operating Company") prior to the organizational transactions described in this Form 10-Q and to Greenlane Holdings, Inc. and its consolidated subsidiaries, including the Operating Company (the "Company") following the organizational transactions. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Risk Factors" included as Exhibit 99.1 to this Quarterly Report on Form 10-Q.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could" and similar expressions. Examples of forward-looking statements include, without limitation:

- statements regarding our growth and other strategies, results of operations or liquidity;
- statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance;
- statements regarding our industry;
- statements of management's goals and objectives;
- projections of revenue, earnings, capital structure and other financial items;
- assumptions underlying statements regarding us or our business; and
- other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, factors discussed in the risk factors included as Exhibit 99.1 to this report and our financial statements and the notes thereto, as well as the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Our Business" described in the final prospectus related to our initial public offering, which was filed with the SEC on April 22, 2019 in accordance with Rule 424(b) under the Securities Act, and the other documents we file from time to time with the SEC.

Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances, or achievements expressed or implied by the forward-looking statements. These risks include, but are not limited to, those listed below and those discussed in greater detail in “Risk Factors” included as Exhibit 99.1 to this report:

- our strategy, outlook and growth prospects;
- general economic trends and trends in the industry and markets;
- our dependence on third-party suppliers;
- the competitive environment in which we operate;
- our vulnerability to third-party transportation risks;
- the impact of governmental laws and regulations and the outcomes of regulatory or agency proceedings;
- our ability to accurately estimate demand for our products and maintain our levels of inventory;
- our ability to maintain our operating margins and meet sales expectations;
- our ability to adapt to changes in consumer spending and general economic conditions;
- our ability to use or license certain trademarks;
- our ability to maintain a consumer brand recognition and loyalty of our products;
- our and our customers’ ability to establish or maintain banking relationships;
- fluctuations in U.S. federal, state, local and foreign tax obligation and changes in tariffs;
- our ability to address product defects;
- our exposure to potential various claims, lawsuits and administrative proceedings;
- contamination of, or damage to, our products;
- any unfavorable scientific studies on the long-term health risks of vaporizers, electronic cigarettes, e-liquids products or hemp-derived cannabidiol (“CBD”) products;
- failure of our information technology systems to support our current and growing business;
- our ability to prevent and recover from Internet security breaches;
- our ability to generate adequate cash from our existing business to support our growth;
- our ability to protect our intellectual property rights;
- our dependence on continued market acceptance by consumers;
- our sensitivity to global economic conditions and international trade issues;
- our ability to comply with certain environmental, health and safety regulations;
- our ability to successfully identify and complete strategic acquisitions;
- natural disasters, adverse weather conditions, operating hazards, environmental incidents and labor disputes;
- increased costs as a result of being a public company;
- our failure to maintain adequate internal controls over financial reporting; and
- other risks, uncertainties and factors set forth in this quarterly report on Form 10-Q and in the Prospectus, including those set forth under “Risk Factors.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Consequently, you should not place undue reliance on forward-looking statements.

Overview

We are a leading distributor of premium vaporization products and consumption accessories in the United States and have a growing presence in Canada. As of March 31, 2019, our customers include over 7,000 wholesale customers, which we estimate collectively operate over 11,000 retail locations, and hundreds of licensed cannabis cultivators, processors and dispensaries. We also own and operate one of the most visited North American direct-to-consumer e-commerce websites in the vaporization products and consumption accessories industry, *Vapor.com*, a unique e-commerce platform which offers convenient, flexible shopping solutions directly to consumers. Through our expansive North American distribution network and internet presence, we offer a comprehensive selection of more than 5,400 stock keeping units ("SKUs"), including premium vaporizers and parts, cleaning products, grinders and storage containers, pipes, rolling papers and customized lines of premium specialty packaging. Following the passage of The Agriculture Improvement Act of 2018, in February 2019, we commenced distribution of premium products containing hemp-derived CBD.

We have cultivated a reputation for carrying the highest-quality products from large established manufacturers that offer leading brands, such as the Volcano vaporizers by Storz & Bickel, a leading, premium imported vaporizer brand; PAX 3 vaporizers by PAX Labs, a leading, premium hand-held vaporizer brand; JUUL vaporizers by JUUL Labs, a nicotine vaporizer brand that had a market share of over 70% of the e-cigarette industry as of February 2019, according to Nielsen's tracked channels; and vaporizers by Firefly, a premium hand-held vaporizer brand. We also carry the innovative, up-and-coming products of dozens of promising start-up manufacturers, to which we extend the ability to grow and scale quickly. We provide value-added sales services to complement our product offerings and help our customers operate and grow their businesses. Recently, we have set out to develop a world class portfolio of our own proprietary brands that we believe will, over time, deliver higher margins and create long-term value. We believe our market leadership, wide distribution network, broad product selection and extensive technical expertise provide us with significant competitive advantages and create a compelling value proposition for our customers and our suppliers.

We market and sell our products in the business to business ("B2B"), supply and packaging ("S&P"), channel and dropship, and business to consumer ("B2C") areas of the marketplace. We have a diverse base of customers, and our top ten customers accounted for only 17.2% of our net sales for the quarter ended March 31, 2019, with no single customer accounting for more than 3.6% of our net sales for the quarter ended March 31, 2019. Nine out of the top ten customers are categorized as B2B customers, with the other one being classified as a S&P customer. While we have recently commenced distribution of our products to a growing number of large national and regional retailers in Canada, our typical B2B customer is an independent retailer operating in a single market. Our sales teams interact regularly with customers as most of them have frequent restocking needs. We believe our high-touch customer service model strengthens relationships, builds loyalty and drives repeat business. In addition, our premium product lines, broad product portfolio and strategically-located distribution centers position us well to meet the needs of our B2B customers and ensure timely delivery of products.

For the quarter ended March 31, 2019, our B2B revenues represented approximately 76.0% of our net sales, our B2C revenues represented approximately 3.7% of our net sales, 14.6% of our net sales were comprised of supply and packaging revenues, and channel and dropship revenues derived from the sales and shipment of our products to the customers of third-party website operators and providing other services to our customers represented 5.7% of our net sales.

We commenced operations upon the completion of our initial public offering (the "IPO") on April 23, 2019. Concurrently with the completion of the IPO, we engaged in certain organizational transactions through which we were reorganized in to an "Up-C" structure and we became the sole manager of the Operating Company. As of the date of this Quarterly Report on Form 10-Q, we own an approximate 23.9% interest in the Operating Company. Because these transactions did not occur until after March 31, 2019, the historical financial results in the financial statements discussed below relate to the Operating Company only.

Recent Developments

Initial Public Offering. On April 23, 2019, we completed our IPO of 6,000,000 shares of Class A common stock, which was comprised of 5,250,000 shares of Class A common stock sold by Greenlane and 750,000 shares sold by certain selling stockholders (comprised of Aaron LoCascio, Greenlane's Chief Executive Officer, Adam Schoenfeld, Greenlane's Chief Strategy Officer, and an affiliated entity of Messrs. LoCascio and Schoenfeld), in each case at a public offering price of $17.00 per share. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. We received aggregate net proceeds of approximately $80.4 million, after deducting the underwriting discounts and commissions and offering expenses payable by us. We intend to use approximately $2.0 million of the net proceeds from the IPO for capital improvements to our warehouses and other facilities and for capital expenditures relating to information technology systems. We intend to use the remainder of the net proceeds for working capital and general corporate purposes, including to fund possible investments in, and acquisitions of, complementary companies or their assets, businesses, partnerships, minority investments, products or technologies. However, we currently have no commitments or agreements regarding any such acquisitions or investments.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future will be, primarily driven by the following factors:

Growth in the Market for Consumption Accessories and Vaporization Products. Our operating results and prospects will be impacted by developments in the market for premium consumption accessories and vaporization products. Our business has benefitted from recent developments and trends that have increased the use of vaporizers and other consumption accessories, including (i) technological innovation that has facilitated the ease of use of vaporizers and generally reduced their costs, (ii) the development of a wider variety of premium products, (iii) the desire of consumers to reduce nicotine consumption through smoking, (iv) changes in state and federal (Canada) laws that have legalized the use of cannabis in an increasing number of jurisdictions and (v) an increase in the number of celebrity endorsers of vaporizer and other consumption brands. These trends have contributed to significant growth in the demand for consumption accessories and vaporization products like ours in recent years; however, consumer demand for branded vaporization products and purchasing trends can and do shift rapidly and without warning. To the extent we are unable to offer products that appeal to consumers, our operating results will be adversely affected. This is particularly true given the concentration of our sales under certain brands.

Relationships with Suppliers. We generate substantially all of our net sales from products manufactured by others. We have strong relationships with many large, well-established suppliers, and seek to establish distribution relationships with smaller or more recently established manufacturers in our industry. While we purchase our products from over 130 suppliers, a significant percentage of our net sales is dependent on sales of products from a small number of key suppliers. For example, products manufactured by PAX Labs represented approximately 11.6% and 17.0% of our net sales for the quarters ended March 31, 2019 and March 31, 2018, respectively, and products manufactured by JUUL Labs represented approximately 42.0% and 42.2% of our net sales for the quarters ended March 31, 2019 and March 31, 2018, respectively. Additionally, Grenco Science represented approximately 7.5% and 9.4% of our net sales in the quarters ended March 31, 2019 and March 31, 2018, respectively, and products manufactured by Storz & Bickel represented approximately 7.5% and 6.0% of our net sales in the quarters ended March 31, 2019 and March 31, 2018, respectively.

We believe there is a trend of suppliers in our industry to consolidate their relationships to do more business with fewer distributors. We believe our ability to help maximize the value and extend the distribution of our suppliers' products has allowed us to benefit from this trend. Although we have a successful track record of renewing and extending the scope of our distribution agreements with suppliers, our distribution agreements typically have short terms (generally two or three years), are generally automatically renewable, with the exception of our distribution agreement with PAX Labs and, in limited cases, give the supplier the right to terminate the distribution agreement at will. In addition, the efforts of our senior management team have been integral to our relationships with our suppliers. Our inability to enter into distribution agreements for the then-current most trendy or up-and-coming products, the termination or lack of renewal of one or more of our distribution agreements, or the renewal of a distribution agreement on less favorable terms, could adversely affect our business.

***Retail Industry Dynamics; Relationships with B2B Customers*.** Historically, a substantial portion of our net sales have been derived from our B2B customers, upon which we rely to reach many of the consumers who are the ultimate purchasers of our products. We depend on retailers to provide adequate and attractive space for our products and point-of-purchase displays in their stores. For the quarter ended March 31, 2019, we sold our products through over 7,000 U.S. and Canadian retailers, and our sales to our B2B customers represented 76.0% of our net sales in the quarter ended March 31, 2019. Our top ten B2B customers represented approximately 14.7% of our net sales in the quarter ended March 31, 2019. In recent years, traditional retailers have been affected by a shift in consumer preferences towards other channels, particularly e-commerce. We believe that this shift may have benefitted our business as retailers dedicated additional shelf space to premium, higher-margin products to drive additional traffic to their stores and improve sales in previously less productive shelf space. However, our B2B customers make no long-term commitments to us regarding purchase volumes and can, therefore, freely reduce their purchases of our products. Significant reductions in purchases of our products by our B2B customers could adversely affect our business. In addition, our future growth depends upon our ability to successfully execute our business strategy.

***Product Mix*.** The mix of products we sell in any given quarter or year will depend on various factors, including the timing and popularity of new releases by third-party suppliers, our ability to distribute products based on these releases and regulatory factors. We have diversified our product offerings across numerous categories. Our results of operations may fluctuate significantly from quarter to quarter or year to year depending on the timing and popularity of new product releases. Sales of a certain products or groups of products tied to a particular supplier can dramatically increase our net sales in any given period. During the quarter ended March 31, 2019, we had net sales of products by JUUL Labs of approximately $21.0 million. In addition, if the performance of one or more of these products fails to meet expectations or updated versions are delayed in their release, our operating results could be adversely affected.

Key Metrics

We monitor the following key metrics to help us measure and evaluate the effectiveness of our operations, develop financial forecasts, and make strategic decisions:

	Three Months Ended March 31,	
	2019	**2018**
Net sales	$ 49,897,604	43,257,643
Period-over-period growth	15.3%	125.5%
Operating cash flow	$ (7,261,668)	$ (2,836,422)
Net (loss) income	$ (17,664,349)	$ 2,298,729
Adjusted net (loss) income [(1)]	$ (1,478,722)	$ 2,439,329
Adjusted EBITDA [(1)]	$ (778,720)	$ 2,712,299

(1) Adjusted Net (Loss) Income and Adjusted EBITDA are non-GAAP financial measures. For the definitions and reconciliation of Adjusted Net (Loss) Income and Adjusted EBITDA to net (loss) income, see "— Non-GAAP Financial Measures."

Total Revenue and Growth*.* We are focused on driving continued revenue growth through increased sales of new and existing products to new and existing customers.

Operating Cash Flow*.* We monitor our operating cash flow as a measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as equity-based compensation expenses and depreciation and amortization. Our operating cash flow is significantly impacted by accounts payable disbursements, changes in our investment in inventory, the timing of commission and bonus payments and collections of accounts receivable.

Adjusted Net (Loss) Income. We monitor our Adjusted Net (Loss) Income, which is defined as net (loss) income before equity-based compensation expense, changes in fair value of our convertible notes, debt placement costs for the convertible notes, and non-recurring expenses primarily related to our transition to being a public company. The debt placement costs related to the convertible notes issued in January 2019 are reported in the interest expense line item in the condensed consolidated statement of operations for the three months ended March 31, 2019. Non-recurring expenses related to our transition to being a public company, which are reported within general and administrative expenses in our condensed consolidated statements of operations, represent fees and expenses primarily attributable to consulting fees and incremental audit and legal fees. Adjusted Net (Loss) Income is a non-GAAP performance measure that we believe assists investors and analysts as a supplemental measure to evaluate our overall operating performance and how well we are executing our business strategies. We believe that the inclusion of certain adjustments in presenting Adjusted Net (Loss) Income is appropriate to provide additional information to investors because Adjusted Net (Loss) Income excludes certain items that we believe are not indicative of our core operating performance and that are not excluded in the calculation of net (loss) income.

Adjusted EBITDA. We monitor our Adjusted EBITDA, which is defined as net (loss) income before interest expense, income tax expense, depreciation and amortization expense, equity-based compensation expense, other income, net, changes in fair value of our convertible notes, and non-recurring expenses primarily related to our transition to being a public company. These non-recurring expenses, which are reported within general and administrative expenses in our consolidated statements of operations, represent fees and expenses primarily attributable to consulting fees and incremental audit and legal fees. Adjusted EBITDA is a non-GAAP performance measure that we believe assists investors and analysts as a supplemental measure to evaluate our overall operating performance and how well we are executing our business strategies. We believe that the inclusion of certain adjustments in presenting Adjusted EBITDA is appropriate to provide additional information to investors because Adjusted EBITDA excludes certain items that we believe are not indicative of our core operating performance and that are not excluded in the calculation of net (loss) income.

Components of Results of Operations

Net Sales

We sell a broad array of premium consumption accessories and vaporization products across a variety of categories, including premium vaporizers and parts, cleaning products, grinders and storage containers, pipes, rolling papers and customizable lines of premium specialty packaging, primarily to B2B customers, including retailers, distributors and licensed cannabis cultivators, processors and dispensaries. We also sell our products directly to B2C consumers through our e-commerce operations and, to a lesser extent, through our retail stores (including our recently opened Higher Standards retail location in Atlanta's popular Ponce City Market).

Revenue from the sale of our products is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, there are no uncertainties regarding customer acceptance, the selling price is fixed or determinable, and collectability is reasonably assured. Sales terms typically do not allow for a right of return except in relation to a manufacturing defect. Shipping costs billed to our customers are included in net sales, while shipping and handling costs, which include inbound freight costs and the cost to ship products to our customers, are typically included in cost of sales.

Cost of Sales

Cost of sales consists primarily of product costs and the cost to ship our products, including both inbound freight and handling and outbound freight of products sold to customers. Our cost of sales excludes depreciation and amortization. Our shipping costs, both inbound and outbound, will fluctuate from period to period based on customer and product mix due to varying shipping terms and other factors.

Our products are produced by our suppliers who may use their own third-party manufacturers. Our product costs and gross margins will be impacted from period to period based on the product mix we sell in any given period. For example, our vaporizer products tend to have a higher product cost and lower gross margins than our grinder products.

We expect our cost of sales to increase on an absolute dollar basis in the near term as we continue to grow our revenue, but to remain relatively consistent as a percentage of total net sales.

Gross Margin

Gross margin, or gross profit as a percentage of net sales, has been and will continue to be affected and fluctuate based upon a variety of factors, including the average mark-up over cost of our products, the mix of products sold and purchasing efficiencies.

Operating Expenses

Operating expenses consist of salaries, benefits and payroll taxes, general and administrative expenses and depreciation and amortization expenses.

Salaries, Benefits and Payroll Taxes. Salaries, benefits and payroll taxes consist of wages for all department personnel, including salaries, bonuses, and other employment-related costs, as well as workers compensation insurance and our portion of medical insurance and 401(k) expenses. Also included is equity-based compensation expense related to the redeemable Class B units and profits interests granted as equity-based compensation.

General and Administrative Expense. General and administrative expense consists of legal, travel and entertainment, subcontracting, professional fees, insurance and other overhead. Also included are marketing activities and promotional events, training costs and rent.

We expect general and administrative expense to increase on an absolute dollar basis in the near term as we continue to increase investments to support our growth. In addition, following the completion of the IPO, we also expect to incur additional general and administrative expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and those of any national securities exchange on which our securities are traded, additional insurance expenses, investor relations activities and other administrative and professional services. As a result, we expect that our general and administrative expense will increase in absolute dollars but may fluctuate as a percentage of our revenue from period to period.

Depreciation and Amortization Expenses. We depreciate and amortize the cost of our property and equipment using the straight-line method over the estimated useful lives of the assets, which is three to seven years in the case of furniture, equipment and software and the lesser of the lease term or five years in the case of leasehold improvements, 15 years for land improvements and 39 years for buildings.

Other (Expense) Income, net

Change in fair value of convertible notes. We account for the convertible notes issued in December 2018 and January 2019 at fair value with any changes in the fair value recognized in the statements of operations as a component of other (expense) income, net.

Interest expense. Interest income (expense), net consists of interest incurred on our outstanding line of credit and other debt obligations. For the period ended March 31, 2019, interest expense also included debt issuance costs related to the convertible notes issued in January 2019.

Other income, net. Other income, net consists primarily of income or losses from our equity method investees, as well as rental income for office space leases to third-party tenants in our corporate headquarters building in Boca Raton, Florida (acquired in October 2018). Our equity method investments as of March 31, 2019 consisted of a 50% non-controlling interest in two separate joint ventures. Both joint ventures are manufacturers of aromatic devices. The operating activity related to the joint ventures was immaterial for the three months ended March 31, 2019 and 2018. Our equity method investments as of March 31, 2018 also consisted of a 33.3% non-controlling interest in NWT Holdings, LLC ("NWT"), a manufacturer of aromatic devices. On December 11, 2018, Greenlane spun off 100% of its interest in the subsidiary which held its investment in NWT through a distribution to its members.

Provision for income taxes

The Operating Company is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, taxable income or loss is passed through to and included in the taxable income of its members. Accordingly, the consolidated financial statements of the Operating Company included herein do not include a provision for U.S. federal income taxes. The Operating Company is liable for various other state and local taxes and is subject to income taxes in foreign jurisdictions. Therefore, the provision for income taxes includes only income taxes on income from our Canadian subsidiary and state income tax, if any, in the consolidated financial statements.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates disclosed under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our final prospectus dated April 17, 2019, filed with the SEC on April 22, 2019 pursuant to Rule 424(b) of the Securities Act of 1933, as amended. For additional information, refer to Note 2 of the Operating Company's condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Results of Operations

	For the three months ended March 31,	
	2019	2018
Net sales	$ 49,897,604	$ 43,257,643
Cost of sales	40,910,819	34,204,549
Gross profit	8,986,785	9,053,094
Operating expenses:		
Salaries, benefits and payroll taxes	8,082,124	2,947,006
General and administrative	5,384,125	3,534,389
Depreciation and amortization	684,077	242,409
Total operating expenses	14,150,326	6,73,804
(Loss) income from operations	(5,163,541)	2,395,290
Other (expense) income, net:		
Change in fair value of convertible notes	(12,062,500)	-
Interest expense	(601,880)	(42,259)
Other income, net	175,237	93,515
Total other (expense) income, net	(12,489,143)	51,256
(Loss) income before income taxes	(17,652,684)	2,380,546
Provision for income taxes	11,665	81,817
Net (loss) income	$ (17,664,349)	$ 2,298,729

Comparison of Quarters ended March 31, 2019 and 2018

Net Sales

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Net sales	$ 49,897,604	$ 43,257,643	$ 6,639,961	15.3%

Net sales increased approximately $6.6 million or 15.3%, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to the change in the regulatory environment in Canada in October 2018. With the legalization of cannabis in Canada, we experienced an increase in overall sales to that region. Merchandise sales in Canada were approximately $6.9 million for the three months ended March 31, 2019, compared to approximately $2.1 million for the three months ended March 31, 2018, representing an increase of $4.8 million, or 228.6%. Merchandise sales in the United States were approximately $42.5 million for the three months ended March 31, 2019, compared to approximately $40.6 million for the three months ended March 31, 2018, representing an increase of $1.9 million, or 4.7%.

The overall total net sales increase of $6.6 million (combined US and Canada) is primarily due to the increased popularity and availability of products by our top product lines. The top six selling product lines collectively resulted in net sales of approximately $39.8 million for the three months ended March 31, 2019, compared to approximately $33.5 million for the three months ended March 31, 2018, representing an increase of approximately $6.3 million, or 18.8%. Approximately $2.6 million of this increase relates to child-resistant storage solution products conforming to American Society for Testing and Materials (“ASTM”) standards, while an additional $2.7 million of this increase relates to e-cigarette products. The remaining $1.0 million increase relates to vaporizers and vaporizer accessory products.

Cost of Sales

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Cost of sales	$ 40,910,819	$ 34,204,549	$ 6,706,270	19.6%
Percentage of net sales	82.0%	79.1%		
Gross profit percentage	18.0%	20.9%		

Cost of sales increased approximately $6.7 million in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to an increase of approximately $7.4 million, or 23.0%, in cost of merchandise expense from approximately $32.2 million in the three months ended March 31, 2018 to approximately $39.6 million in the three months ended March 31, 2019. In addition, there was an $800,000 decrease in other cost of goods fees. This decrease was primarily related to purchase volume discounts the Company received from vendors in the three months ended March 31, 2019 that were not received in the three months ended March 31, 2018.

Salaries, benefits and payroll taxes

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Salaries, benefits and payroll taxes	$ 8,082,124	$ 2,947,006	$ 5,135,119	174.2%
Percentage of net sales	16.2%	6.8%		

Salaries, benefits and payroll taxes expenses increased approximately $5.1 million in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to an increase in personnel expenses of approximately $2.2 million resulting from the addition of 79 employees as we continued to expand our domestic sales and marketing efforts. We had 211 employees as of March 31, 2018 and 290 employees as of March 31, 2019. Further, we recorded approximately $2.6 million of equity-based compensation expense related to the redeemable Class B units which were granted as equity-based compensation to certain executives of the Operating Company. We also recorded approximately $230,000 of equity-based compensation related to new profits interest awards that were awarded in January and February 2019.

General and Administrative Expenses

	Three Months Ended March 31,		Change	
	2019	2018	$	%
General and administrative	$ 5,384,125	$ 3,534,389	$ 1,849,736	52.3%
Percentage of net sales	10.8%	8.2%		

General and administrative expenses increased approximately $1.8 million in the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase is primarily due to an increase of approximately $441,000 in marketing expenses; an increase of $378,000 in subcontracted services, labor and temp fees primarily due to the use of a third-party placement firm to find the new CFO, an increase of approximately $115,000 in rent and facilities expense due to new warehouse facilities, the acquisition of the headquarters building, and the acquisition of Pollen Gear; an increase of approximately $118,000 in bank merchant fees due to our increased sales volume; an increase of approximately $176,000 in software expenses; an increase of approximately $338,000 in accounting expenses, and an increase of approximately $258,000 in consulting and legal fees.

Depreciation and Amortization Expenses

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Depreciation and amortization	$ 684,077	$ 242,409	$ 441,668	182.2%
Percentage of net sales	1.4%	0.6%		

Depreciation and amortization expense increased approximately $442,000 in the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 primarily due to tangible and intangible asset additions, including tangible and intangible assets acquired through the acquisition of Pollen Gear LLC, and our corporate headquarters building located in Boca Raton, Florida.

Other (Expense) Income, Net

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Other (expense) income, net	$ (12,489,143)	$ 51,256	$ (12,540,399)	*
Percentage of net sales	(25.0)%	0.1%		

* Not meaningful.

Other (expense) income, net increased by approximately $12.5 million in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to an increase of approximately $12.1 million resulting from the change in fair value of convertible notes payable. Additionally, this change is attributable to an increase of approximately $563,000 in interest expense related to the debt incurred to purchase our new corporate headquarters building in Boca Raton, Florida, and to debt placement costs incurred in connection with the convertible notes issued.

Provision for Income Taxes

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Provision for income taxes	$ 11,665	$ 81,817	$ (70,152)	(85.7)%
Percentage of net sales	0.0%	0.2%		

Provision for income taxes decreased by approximately $70,000, or 85.7%, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to the calculation in 2019 being based on actual quarterly taxable income as opposed to being calculated on projected yearly taxable income in 2018. As discussed above, after the consummation of the IPO, we became subject to U.S. federal, state and local income taxes with respect to our allocable share of any taxable income of Greenlane Holdings, Inc. and will be taxed at the prevailing corporate tax rates. As a result, we expect our provision for income taxes, both in amount and as a percentage of our net sales, to increase in future periods.

Non-GAAP Financial Measures

Adjusted Net (Loss) Income is defined as net (loss) income before equity-based compensation expense, changes in the fair value of our convertible notes, debt placement costs for the convertible notes, and non-recurring expenses primarily related to our transition to being a public company. The debt placement costs related to the convertible notes issued in January 2019 are reported in the interest expense line item in the condensed consolidated statement of operations for the three months ended March 31, 2019. Non-recurring expenses related to our transition to being a public company, which are reported within general and administrative expenses in our condensed consolidated statements of operations, represent fees and expenses primarily attributable to consulting fees and incremental audit and legal fees. Adjusted EBITDA is defined as net (loss) income before interest expense, income tax expense, depreciation and amortization expense, equity-based compensation expense, other income, net, changes in fair value of our convertible notes, and non-recurring expenses primarily related to our transition to being a public company. We disclose Adjusted Net (Loss) Income and Adjusted EBITDA, which are non-GAAP performance measures, because management believes these metrics assist investors and analysts in assessing our overall operating performance and evaluating how well we are executing our business strategies. You should not consider Adjusted Net (Loss) Income or Adjusted EBITDA as alternatives to net (loss) income, as determined in accordance with U.S. GAAP, as indicators of our operating performance.

Adjusted Net (Loss) Income and adjusted EBITDA have limitations as an analytical tool. Some of these limitations are:

- Adjusted EBITDA does not include interest expense, which has been a necessary element of our costs
- Adjusted EBITDA does not include depreciation expense of property, plant and equipment
- Adjusted EBITDA does not include amortization expense associated with our intangible assets
- Adjusted EBITDA does not include provision for income taxes or future requirements for income taxes to be paid
- Adjusted EBITDA does not include other income, net
- Adjusted Net (Loss) Income and Adjusted EBITDA do not include equity-based compensation expense
- Adjusted Net (Loss) Income and Adjusted EBITDA do not include the change in fair value of convertible notes
- Adjusted Net (Loss) Income and Adjusted EBITDA do not include expenses incurred related to our transition to being a public company
- Adjusted Net (Loss) Income does not include debt placement costs for the convertible notes issued in January 2019

Because adjusted Net (Loss) Income and adjusted EBITDA do not account for these items, these measures have material limitations as indicators of operating performance. Accordingly, management does not view adjusted Net (Loss) Income or Adjusted EBITDA in isolation or as substitutes for measures calculated in accordance with U.S. GAAP.

The reconciliation of our net (loss) income to adjusted net (loss) income is as follows:

	Three Months Ended March 31,	
	2019	**2018**
Net (loss) income	$ (17,664,349)	$ 2,298,729
Debt placement costs for convertible notes[1]	422,383	-
Change in fair value of convertible notes	12,062,500	-
Transition to being a public company[2]	849,865	140,600
Equity-based compensation expense	2,850,879	-
Adjusted net (loss) income	$ (1,478,722)	$ 2,439,329

(1) Debt placement costs related to the issuance of convertible notes in January 2019.

(2) Includes certain non-recurring fees and expenses primarily attributable to consulting fees and incremental audit and legal fees incurred in connection with our transition to being a public company.

The reconciliation of our net (loss) income to Adjusted EBITDA is as follows:

	Three Months Ended March 31,	
	2019	2018
Net (loss) income	$ (17,664,349)	$ 2,298,729
Other income, net	(175,237)	(93,515)
Transition to being a public company[1]	849,865	140,600
Interest expense	601,880	42,259
Provision for income taxes	11,665	81,817
Depreciation and amortization	684,077	242,409
Equity-based compensation expense	2,850,879	-
Change in fair value of convertible notes	12,062,500	-
Adjusted EBITDA	$ (778,720)	$ 2,712,299

(1) Includes certain non-recurring fees and expenses primarily attributable to consulting fees and incremental audit and legal fees incurred in connection with our transition to being a public company.

Liquidity and Capital Resources

As of March 31, 2019, we had approximately $2.8 million of cash and cash equivalents and approximately $28.0 million of working capital, which is calculated as current assets minus current liabilities, compared with approximately $7.3 million of cash and cash equivalents and approximately $26.7 million of working capital as of December 31, 2018. On April 23, 2019, we completed our IPO of 6,000,000 shares of Class A common stock. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. The public offering price of the shares sold in the IPO was $17.00 per share, resulting in aggregate net proceeds to us of approximately $80.4 million, after deducting the underwriting discounts and commissions and offering expenses payable by us.

Working capital is impacted by the seasonal trends of our business and the timing of new product releases. See "— Seasonality."

Sources of Funds

Our primary requirements for liquidity and capital are working capital, debt service and general corporate needs. Historically, these cash requirements have been met through cash provided by operating activities and borrowings under our bank revolving line of credit. For a description of our line of credit, see "— Line of Credit and Term Loan." We also intend to use a portion of the net proceeds from the IPO to fund certain capital and liquidity requirements. In the future, we may also engage in offerings of our securities or incur additional debt.

Uses of Funds

Additional future liquidity needs may include public company costs, payments in respect of the redemption rights of common units of the Operating Company ("Common Units") held by its members that may be exercised from time to time (should we elect to exchange such Common Units for a cash payment), payments under the Tax Receivable Agreement and state and federal taxes to the extent not sheltered by our tax assets, including those arising as a result of purchases, redemptions or exchanges of Common Units for Class A common stock. The members of the Operating Company may exercise their redemption right for as long as their Common Units remain outstanding. Although the actual timing and amount of any payments that may be made under the Tax Receivable Agreement will vary, we expect that the payments that we will be required to make to the members will be significant. Any payments made by us to the members under the Tax Receivable Agreement will generally reduce the amount of overall cash flow that might have otherwise been available to us or to the Operating Company and, to the extent that we are unable to make payments under the Tax Receivable Agreement for any reason, the unpaid amounts generally will be deferred and will accrue interest until paid by us; provided, however, that nonpayment for a specified period may constitute a material breach of a material obligation under the Tax Receivable Agreement and therefore may accelerate payments due under the Tax Receivable Agreement.

Notwithstanding our obligations under the Tax Receivable Agreement, we believe that our sources of liquidity and capital will be sufficient to finance our continued operations and growth strategy, our planned capital expenditures and the additional expenses we expect to incur as a public company for at least the next 12 months. However, we cannot assure you that our cash provided by operating activities, cash and cash equivalents or cash available under our bank line of credit will be sufficient to meet our future needs. If we are unable to generate sufficient cash flows from operations in the future, and if availability under our bank line of credit is not sufficient, we may have to obtain additional financing. If we obtain additional capital by issuing equity securities, the interests of our existing stockholders will be diluted. If we incur additional indebtedness, that indebtedness may contain significant financial and other covenants that may significantly restrict our operations. We cannot assure you that we can obtain refinancing or additional financing on favorable terms, or at all, to meet our future capital needs.

Cash Flows

The following summary of cash flows for the periods indicated has been derived from the consolidated financial statements of the Operating Company included elsewhere in this Quarterly Report on Form 10-Q:

	Three Months Ended March 31,	
	2019	**2018**
Cash used in operating activities	$ (7,261,668)	$ (2,836,422)
Cash (used in) provided by investing activities	(972,428)	547,347
Cash provided by financing activities	3,641,833	3,327,679
Effect of exchange rates on cash	27,553	(19,925)
Net (decrease) increase in cash	$ (4,564,710)	$ 1,018,679

Cash Flows from Operating Activities

During the three months ended March 31, 2019 and 2018, we used cash of approximately $7.3 million and $2.8 million, respectively, for operating activities. Net cash used for operating activities increased by approximately $4.5 million to $7.3 million cash used for the three months ended March 31, 2019 from approximately $2.8 million of cash used for the three months ended March 31, 2018. The increase in net cash used for operating activities resulted from a decrease in net income of approximately $19.9 million. The components of operating assets and liabilities decreased by approximately $0.1 million driven primarily by decreases in accounts payable of approximately $8.8 million, accounts receivable of approximately $0.6 million, and payments of operating leases of approximately $0.2 million, offset primarily by increases in vendor deposits of approximately $4.7 million, inventories of approximately $4.3 million, and accrued expenses of $0.5 million. Further, for the three months ended March 31, 2019, we had noncash expenses of approximately $16.1 million, including approximately $12.1 million related to the change in fair value of convertible notes and approximately $2.9 million related to equity-based compensation.

Cash Flows from Investing Activities

During the three months ended March 31, 2019, we used approximately $1.0 million of cash for investing activities, while approximately $0.5 million of cash was provided by investing activities for the three months ended March 31, 2018. For the three months ended March 31, 2019, we used approximately $0.5 million of cash for capital expenditures, including computer hardware and software to support our growth and development, and to purchase warehouse supplies and equipment, including the buildout of our two retail locations. We also made an investment in equity securities of an entity for approximately $0.5 million, which represents a 1.71% ownership interest in the entity. For the three months ended March 31, 2018, we acquired cash of approximately $0.8 million from the acquisition of Better Life Holdings, LLC. This increase was partially offset by cash used for capital expenditures of approximately $0.2 million.

Cash Flows from Financing Activities

During the three months ended March 31, 2019 and 2018, we received approximately $3.6 million and $3.3 million, respectively, from financing activities. During the three months ended March 31, 2019, cash provided by financing activities was primarily attributable to proceeds from the issuance of convertible notes of approximately $8.0 million and proceeds from the line of credit of approximately $0.3 million, which was offset in part by the redemption of limited liability company membership interests of approximately $3.0 million, payment of approximately $1.6 million of debt issuance costs related to the convertible notes issued in December 2018 and January 2019, and approximately $0.1 million paid related to offering costs, capital lease obligations, and notes payable for the period. In the three months ended March 31, 2018, cash provided by financing activities was primarily due to net borrowings on the line of credit to a related party of approximately $4.1 million, offset primarily by member distributions of approximately $1.0 million.

Line of Credit and Term Loan

On October 4, 2017, Jacoby & Co. Inc., the prior managing member of the Operating Company, entered into a credit agreement with Fifth Third Bank. The credit agreement originally provided for a revolving credit facility of up to $8.0 million. Jacoby & Co. Inc.'s obligations as the borrower under the credit facility were guaranteed by Aaron LoCascio and Adam Schoenfeld (our Chief Executive Officer and Chief Strategy Officer, respectively) as the stockholders of Jacoby & Co. Inc. at such time, and by all of our operating subsidiaries and were secured by a first priority security interest in substantially all of the assets of the Operating Company and its operating subsidiaries. The revolving credit facility originally matured on October 3, 2018.

On August 23, 2018, the parties to the original credit agreement entered into an amendment to such agreement pursuant to which the Operating Company became the borrower, and Jacoby & Co. Inc. became a guarantor, of the amounts borrowed thereunder. The amount of the revolving credit facility was increased from $8.0 million to $15.0 million and the termination date of the revolving credit facility was extended to August 23, 2020. The obligations of the Operating Company as borrower continued to be guaranteed by Messrs. LoCascio and Schoenfeld and the operating subsidiaries of the Operating Company, and Jacoby & Co. Inc. became an additional guarantor. The obligations of the Operating Company and the guarantors continue to be secured by substantially all of our assets.

On October 1, 2018, the parties to the amended credit agreement and 1095 Broken Sound Pkwy LLC, a newly-formed, wholly-owned subsidiary of the Operating Company that we organized to purchase our new corporate headquarters facility in Boca Raton, Florida ("BSP"), entered into an amendment to the amended credit facility to provide for a $8.5 million term loan on such date from Fifth Third Bank to BSP that was used by BSP to close on the purchase of our new corporate headquarters facility. The term loan amortizes over a period of seven years and matures on October 1, 2025 with a final balloon payment of approximately $7.2 million. The obligations of BSP as borrower under the term loan are secured by a mortgage on our new corporate headquarters facility and a lien on substantially all of our assets, and are guaranteed by Messrs. LoCascio and Schoenfeld, Jacoby & Co. Inc., the Operating Company and the operating subsidiaries of the Operating Company.

The revolving credit facility under the amended credit agreement bears interest at a rate per annum equal to LIBOR plus 3.5% and the term loan bears interest at a rate per annum equal to LIBOR plus 2.39%, in each case provided that no event of default has occurred. During the continuance of an event of default, the interest rate on each loan shall, at the option of Fifth Third Bank, increase by an additional 5% per annum, and Fifth Third Bank will be able to terminate the loans and declare all outstanding obligations of the borrowers under the amended credit agreement to be due and payable. The amended credit agreement contains customary events of default.

The amended credit agreement contains generally customary affirmative and negative covenants, including, but not limited to, restrictions on the ability of the Operating Company and each of its operating subsidiaries to incur additional indebtedness, create liens, make guarantees, sell or transfer any notes or other obligations, change or alter the nature of its business in any material respects, make changes to accounting policies and procedures or tax status, enter into certain transactions with affiliates, fail to comply with certain requirements and obligations relating to employee benefit plans, enter into or undertake certain liquidations, mergers, consolidations or acquisitions, permit the borrower group's fixed charge coverage ratio to be less than 1.25 and transfer and/or dispose of assets. As of March 31, 2019, we were in compliance with all covenants under the amended credit agreement.

As of March 31, 2019, we had borrowings of $325,000 outstanding under the revolving credit facility included in the amended credit agreement. Repayments are made daily on the revolving credit facility through our sweep arrangement with Fifth Third Bank.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Seasonality

While our B2B customers typically operate in highly-seasonal businesses, we have historically experienced only moderate seasonality in our business, particularly during the fourth quarter, which coincides with Cyber Monday (the first Monday after Thanksgiving, when online retailers typically offer holiday discounts), and as our customers build up their inventories in anticipation of the holiday season and we have related promotional marketing campaigns. However, the rapid growth we have experienced in recent years may have masked the full effects of seasonal factors on our business to date and, as a result, seasonality may have a greater effect on our results of operations in future periods.

Profits Interests

In January and February 2019, we entered into profits interest award agreements with several of our executives and employees. The profits interests vest over a period of four to five years. Any unvested portion of the profits interest would have vested upon the consummation of a capital event that was also a change in control (as defined in the 2019 Equity Incentive Plan) of Greenlane. The agreements specified that the award entitles the grantee to only participate in certain net profits and net proceeds in excess of a threshold amount (as defined) from a capital event that was also a change in control of Greenlane, allocated and distributed to the profits interest from and after the grant date, and does not entitle the grantee to any other profits of Greenlane, and as such was intended to constitute a profits interest under the limited liability company operating agreement of the Operating Company. We determined that these awards represent equity instruments and such awards were accounted for under ASC Topic 718, *Stock Compensation*. The profits interest award provisions included both a service condition (explicit requisite service period) and a performance condition (i.e., change in control). Vesting of the profits interest awards was based on satisfying either the service or the performance condition. As a result, the initial requisite service period was the shorter of the explicit service period for the service condition or the explicit or implicit service period for the performance condition. Under ASC Topic 718, the total fair value of the profits interest awards is measured at grant date and compensation cost is recognized over the service vesting period or accelerated if a change of control occurred prior to the completion of service vesting. The grant date fair value of awards made in January and February 2019 was approximately $4.8 million.

During the three months ended March 31, 2019, we recorded compensation expense of approximately $230,000 related to the profits interests granted in January and February 2019, which is included in salaries, benefits and payroll taxes in the condensed consolidated statement of operations. As of March 31, 2019, we had approximately $4.6 million of unrecognized compensation costs related to the profits interests granted as equity-based compensation. This amount is expected to be recognized over a weighted-average period of 2.9 years.

Redeemable Class B Units

We determined that a portion of redeemable Class B units granted as equity-based compensation met the criteria for liability classification under ASC 718,*Stock Compensation*. One-half of each holder's award was deemed vested on the modification date and the other half contained a service condition spanning from two to three years. For the liability-classified portion of the awards, we will remeasure the fair value of the awards each reporting period until the awards are settled, and true up compensation cost each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

During the three-months ended March 31, 2019, we recorded compensation expense of approximately $2.6 million resulting from the incremental vesting and modification of one of the redeemable Class B units awards, which is included in salaries, benefits and payroll taxes in the condensed consolidated statement of operations. We recorded an equity-based compensation liability of approximately $357,000 and 21,000 within accrued expenses in the accompanying condensed consolidated balance sheets as March 31, 2019 and December 31, 2018, respectively. As of March 31, 2019, we had approximately $2.9 million of unrecognized compensation costs related to the redeemable Class B units granted as equity-based compensation. This amount is expected to be recognized over a weighted-average period of 1.9 years.

The fair value of our redeemable Class B units which were granted as equity-based compensation, is based on Greenlane Holdings, Inc's. IPO price per share of $17.00.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We currently have no material exposure to interest rate risk. In the future, we intend to invest our excess cash primarily in money market funds, debt instruments of the U.S. government and its agencies and in high quality corporate bonds and commercial paper. Due to the short-term nature of these investments, we do not believe that there will be material exposure to interest rate risk arising from our investments.

Foreign Currency Risk

Prior to August 23, 2013, all of our product sales, inventory purchases and operating expenses were denominated in U.S. dollars. We therefore did not have any foreign currency risk associated with these activities. In August 2013, we created a wholly-owned subsidiary in Canada, Vape World Distribution LTD ("VWDL"). The functional currency of all of our entities is the U.S. dollar, other than VWDL, the functional currency of which is the Canadian dollar. While currently a material portion of our inventory purchases for VWDL are in U.S. dollars, its product sales will primarily be in Canadian dollars. Additionally, VWDL incurs its operating expenses in Canadian dollars. Therefore, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, principally the Canadian dollar. However, we believe that the exposure to foreign currency fluctuation from product sales and operating expenses is immaterial at this time as the related product sales and costs do not constitute a significant portion of our total net sales and expenses. As we grow and expand the geographic reach of our operations, our exposure to foreign currency risk could become more significant. To date, we have not entered into any foreign currency exchange contracts and currently do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

Impact of Inflation

Our results of operations and financial condition are presented based on historical costs. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits 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 information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of its business, Greenlane is involved in various legal proceedings involving a variety of matters. Greenlane does not believe there are any pending legal proceedings that will have a material adverse effect on Greenlane's business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

ITEM 1A. RISK FACTORS

For a discussion of potential risks and uncertainties related to us, see the information included as Exhibit 99.1 to this Quarterly Report and incorporated herein by reference, which is excerpted from the our final IPO prospectus filed pursuant to Rule 424(b) of the Securities Act of 1933, as amended, which was filed with the SEC on April 22, 2019 and is accessible on the SEC's website at www.sec.gov.

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

Unregistered Sales of Equity Securities

On April 23, 2019, in connection with the IPO, we issued (i) an aggregate of 80,886,549 of shares of Class C common stock to Adam Schoenfeld, our Chief Strategy Officer, Jacoby & Co. Inc., an affiliated entity of Mr. Schoenfeld, and Aaron LoCascio, our Chief Executive Officer and (ii) an aggregate of 6,156,708 shares of our Class B common stock to certain other former members in the Operating Company. The issuances were made in reliance upon exemptions from registration provided by Section 4(a)(2) of the Securities Act and Regulation D under the Securities Act.

Use of Proceeds from Registered Securities

On April 23, 2019, we completed our IPO of 6,000,000 shares of Class A common stock, which was comprised of 5,250,000 shares of Class A common stock sold by Greenlane and 750,000 shares sold by certain selling stockholders (comprised of Aaron LoCascio, Greenlane's Chief Executive Officer, Adam Schoenfeld, Greenlane's Chief Strategy Officer, and an affiliated entity of Messrs. LoCascio and Schoenfeld), in each case at a public offering price of $17.00 per share. On April 29, 2019, the underwriters purchased an additional 450,000 shares of Class A common stock from selling stockholders pursuant to the partial exercise of their option to purchase additional shares in the IPO. We received aggregate net proceeds of approximately $80.4 million, after deducting the underwriting discounts and commissions of approximately $7.1 million and approximately $2.3 million of offering expenses payable by us. We intend to use approximately $2.0 million of the net proceeds from the IPO for capital improvements to our warehouses and other facilities and for capital expenditures relating to information technology systems. We intend to use the remainder of the net proceeds for working capital and general corporate purposes, including to fund possible investments in, and acquisitions of, complementary companies or their assets, businesses, partnerships, minority investments, products or technologies. However, we currently have no commitments or agreements regarding any such acquisitions or investments. All shares were sold pursuant to a registration statement on Form S-1, as amended (File No. 333-230405), which was declared effective by the SEC on April 17, 2019. Cowen and Company, LLC and Canaccord Genuity LLC served as representatives of the several underwriters in the offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying Exhibit Index, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Greenlane Holdings, Inc. (Incorporated by reference to Exhibit 3.1 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
3.2	Second Amended and Restated Bylaws of Greenlane Holdings, Inc. (Incorporated by reference to Exhibit 3.2 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
4.1	Form of Stock Certificate (Incorporated by reference to Exhibit 4.1 to Greenlane's Registration Statement on Form S-1/A, filed on April 8, 2019).
4.2	Form of Convertible Promissory Note (Incorporated by reference to Exhibit 4.2 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.1	Reorganization Agreement, dated April 17, 2019, by and among Greenlane Holdings, Inc., Greenlane Holdings, LLC and the Members of Greenlane Holdings, LLC listed on the signature pages thereto (Incorporated by reference to Exhibit 10.3 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
10.2	Registration Rights Agreement, dated April 17, 2019, by and among Greenlane Holdings, Inc., Greenlane Holdings, LLC and its Members (Incorporated by reference to Exhibit 10.1 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
10.3	Third Amended and Restated Operating Agreement of Greenlane Holdings, LLC, dated April 17, 2019, by and among Greenlane Holdings, LLC and its Members (Incorporated by reference to Exhibit 10.2 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
10.4	Tax Receivable Agreement, dated April 17, 2019, by and among Greenlane Holdings, Inc., Greenlane Holdings, LLC and each of the members of Greenlane Holdings, LLC from time to time party thereto (Incorporated by reference to Exhibit 10.4 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
10.5*	Indemnification Agreement by and between Greenlane Holdings, Inc. and each of its directors and officers listed on Schedule A thereto.
10.6	Credit Agreement, dated as of October 4, 2017, by and between Jacoby & Co. Inc. and Fifth Third Bank (Incorporated by reference to Exhibit 10.6 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.7	Omnibus Amendment No.1 to Credit Agreement, Guarantees, and Security Agreements, dated as of August 23, 2018, by and among Greenlane Holdings, LLC, Jacoby & Co. Inc., the other Borrower Parties listed on the signature page thereto and Fifth Third Bank (Incorporated by reference to Exhibit 10.7 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.8	Amended and Restated Credit Agreement, dated as of October 1, 2018, by and among 1095 Broken Sound Pkwy LLC, Greenlane Holdings, LLC and Fifth Third Bank (Incorporated by reference to Exhibit 10.8 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.9	Greenlane Holdings, Inc. 2019 Equity Incentive Plan (Incorporated by reference to Exhibit 10.5 to Greenlane's Current Report on Form 8-K, filed on April 25, 2019).
10.10	Contribution Agreement, dated as of February 20, 2018, by and among Greenlane Holdings, LLC (f/k/a Jacoby Holdings LLC), the Sellers named therein and Better Life Products, Inc., as Seller Representative (Incorporated by reference to Exhibit 10.10 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.11	Employment Agreement with Aaron LoCascio (Incorporated by reference to Exhibit 10.11 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.12	Employment Agreement with Adam Schoenfeld (Incorporated by reference to Exhibit 10.12 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.13	Employment Agreement with Sasha Kadey (Incorporated by reference to Exhibit 10.13 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.14	Employment Agreement with Jay Scheiner (Incorporated by reference to Exhibit 10.14 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).

Exhibit Number	Description
10.15	Employment Agreement with Ethan Rudin (Incorporated by reference to Exhibit 10.15 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.16	Contribution Agreement, dated as of January 4, 2019, by and among Greenlane Holdings, LLC, Pollen Gear Holdings LLC and Pollen Gear LLC (Incorporated by reference to Exhibit 10.18 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.17	Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.19 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
10.18	Form of Restricted Stock Agreement (Incorporated by reference to Exhibit 10.20 to Greenlane's Registration Statement on Form S-1, filed on March 20, 2019).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Excerpts from Greenlane's Prospectus filed pursuant to Rule 424B on April 22, 2019.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbas Document*

* Filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	GREENLANE HOLDINGS, INC.
Date: May 9, 2019	By: /s/ Aaron LoCascio Aaron LoCascio Chief Executive Officer (Principal Executive Officer)
Date: May 9, 2019	By: /s/ Ethan Rudin Ethan Rudin Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.5

INDEMNIFICATION AGREEMENT

by and between

GREENLANE HOLDINGS, INC.

And

[ ]

as Indemnitee

Dated as of , 2019

TABLE OF CONTENTS

		Page
ARTICLE 1	DEFINITIONS	2
ARTICLE 2	INDEMNITY IN THIRD-PARTY PROCEEDINGS	6
ARTICLE 3	INDEMNITY IN PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY	6
ARTICLE 4	INDEMNIFICATION FOR EXPENSES OF A PARTYWHO IS WHOLLY OR PARTLY SUCCESSFUL	7
ARTICLE 5	INDEMNIFICATION FOR EXPENSES OF A WITNESS	7
ARTICLE 6	ADDITIONAL INDEMNIFICATION, HOLD HARMLESS AND EXONERATION RIGHTS	7
ARTICLE 7	CONTRIBUTION IN THE EVENT OF JOINT LIABILITY	8
ARTICLE 8	EXCLUSIONS	8
ARTICLE 9	ADVANCES OF EXPENSES; SELECTION OF LAW FIRM	9
ARTICLE 10	PROCEDURE FOR NOTIFICATION; DEFENSE OF CLAIM; SETTLEMENT	10
ARTICLE 11	PROCEDURE UPON APPLICATION FOR INDEMNIFICATION	11
ARTICLE 12	PRESUMPTIONS AND EFFECT OF CERTAIN PROCEEDINGS	12
ARTICLE 13	REMEDIES OF INDEMNITEE	14
ARTICLE 14	SECURITY	15
ARTICLE 15	NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE; PRIMACY OF INDEMNIFICATION; SUBROGATION	16
ARTICLE 16	ENFORCEMENT AND BINDING EFFECT	17
ARTICLE 17	MISCELLANEOUS	18

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT, dated effective as of [ ], 2019 (this "Agreement"), by and between Greenlane Holdings, Inc., a Delaware corporation (the "Company"), and [ ] ("Indemnitee"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in Article 1. See Schedule A for a list of officers and directors who have entered into this Indemnification Agreement with the Company.

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company;

WHEREAS, in order to induce Indemnitee to provide or continue to provide services to the Company, the Company wishes to provide for the indemnification of, and advancement of expenses to, Indemnitee to the fullest extent permitted by law;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks at the same time as the availability and scope of coverage of liability insurance provide increasing challenges for the Company;

WHEREAS, the Company's Amended and Restated Certificate of Incorporation (as the same may be amended and/or restated from time to time, the "Certificate of Incorporation") requires indemnification of the officers and directors of the Company, and Indemnitee may also be entitled to indemnification pursuant to applicable provisions of the Delaware General Corporation Law ("DGCL");

WHEREAS, the Certificate of Incorporation and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts providing for indemnification may be entered into between the Company and members of the board of directors of the Company (the "Board"), executive officers and other key employees of the Company;

WHEREAS, this Agreement is a supplement to and in furtherance of the Certificate of Incorporation and any resolutions adopted pursuant thereto and shall not be deemed a substitute therefor nor to diminish or abrogate any rights of Indemnitee thereunder (regardless of, among other things, any amendment to or revocation of governing documents or any change in the composition of the Board or any Corporate Transaction); and

WHEREAS, Indemnitee will serve or continue to serve as a director, officer or key employee of the Company for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation or is otherwise terminated by the Company.

NOW, THEREFORE, in consideration of the promises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

ARTICLE 1

DEFINITIONS

As used in this Agreement:

1.1. "Affiliate" shall have the meaning set forth in Rule 405 under the Securities Act of 1933, as amended (as in effect on the date hereof).

1.2. "Agreement" shall have the meaning set forth in the preamble.

1.3. "Beneficial Owner" and "Beneficial Ownership" shall have the meaning set forth in Rule 13d-3 under the

1.4. Exchange Act (as in effect on the date hereof).

1.5. "Board" shall have the meaning set forth in the recitals.

1.6. "Bylaws" shall mean the Company's Bylaws (as the same may be amended and/or restated from time to time).

1.7. "Certificate of Incorporation" shall have the meaning set forth in the recitals.

1.8. "Change in Control" shall mean, and shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(a) Acquisition of Stock by Third Party. Any Person other than a Permitted Holder is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding Voting Securities, unless (i) the change in the relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors or (ii) such acquisition was approved in advance by the Continuing Directors and such acquisition would not constitute a Change in Control under part (c) of this definition;

(b) Change in Board of Directors. Individuals who, as of the date hereof, constitute the Board, and any new director whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least a majority of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended by the directors referred to in this clause (b) (collectively, the "Continuing Directors"), cease for any reason to constitute at least a majority of the members of the Board;

(c) Corporate Transactions. The effective date of a reorganization, merger or consolidation of the Company (in each case, a "Corporate Transaction"), unless following such Corporate Transaction: (i) all or substantially all of the individuals and entities who were the Beneficial Owners of Voting Securities of the Company immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding Voting Securities of the Company or other Person resulting from such Corporate Transaction (including, without limitation, a corporation or other Person that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership of Voting Securities immediately prior to such Corporate Transaction; (ii) no Person (excluding any corporation resulting from such Corporate Transaction or the Permitted Holders) is the Beneficial Owner, directly or indirectly, of 50% or more of the combined voting power of the then outstanding Voting Securities of the Company or other Person resulting from such Corporate Transaction, except to the extent that such ownership existed prior to such Corporate Transaction; and (iii) at least a majority of the board of directors of the Company or other Person resulting from such Corporate Transaction were Continuing Directors at the time of the execution of the initial agreement, or of the action of the Board, providing for such Corporate Transaction; or

(d) Other Events. The approval by the stockholders of the Company of a plan of complete liquidation or dissolution of the Company or the consummation of an agreement or series of related agreements for the sale or other disposition, directly or indirectly, by the Company of all or substantially all of the Company's assets, other than such sale or other disposition by the Company of all or substantially all of the Company's assets to a Person, at least 50% of the combined voting power of the Voting Securities of which are Beneficially Owned by (i) the stockholders of the Company immediately prior to such sale or (ii) the Permitted Holders.

1.8. "Company" shall have the meaning set forth in the preamble and shall also include, in addition to the resulting corporation or other entity, any constituent corporation (including, without limitation, any constituent of a constituent) absorbed in a consolidation or merger that, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation or other entity as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

1.9. "Continuing Directors" shall have the meaning set forth in Section 1.7(b).

1.10. "Corporate Status" shall describe the status as such of a Person who is or was a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of the Company or of any other Enterprise which such Person is or was serving at the request of the Company.

1.11. "Corporate Transaction" shall have the meaning set forth in Section 1.7(c).

1.12. "Delaware Court" shall mean the Court of Chancery of the State of Delaware.

1.13. "DGCL" shall have the meaning set forth in the recitals.

1.14. "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

1.15. "Enterprise" shall mean the Company and any other corporation, constituent corporation (including, without limitation, any constituent of a constituent) absorbed in a consolidation or merger to which the Company (or any of its wholly owned Subsidiaries) is a party, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent.

1.16. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

1.17. "Expenses" shall include all reasonable and documented attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, settling or negotiating for the settlement of, responding to or objecting to a request to provide discovery in, or otherwise participating in, any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including, without limitation, the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments, fines or penalties against Indemnitee.

1.18. "Indemnification Arrangements" shall have the meaning set forth in Section 15.2.

1.19. "Indemnitee" shall have the meaning set forth in the preamble.

1.20. "Independent Counsel" shall mean a law firm, or a member of a law firm, that is of outstanding reputation, experienced in matters of corporation law and neither is as of the date of selection of such firm, nor has been during the period of three years immediately preceding the date of selection of such firm, retained to represent: (a) the Company or Indemnitee in any material matter (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements); or (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any Person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. For purposes of this definition, a "material matter" shall mean any matter for which billings exceeded or are expected to exceed $100,000.

1.21. "Permitted Holder" shall mean Aaron LoCascio, Adam Schoenfeld, Jacoby & Co. Inc. and their respective Affiliates and Related Parties.

1.22. "Person" shall have the meaning set forth in Sections 13(d) and 14(d) of the Exchange Act (as in effect on the date hereof); provided, however, that the term "Person" shall exclude: (a) the Company; (b) any Subsidiaries of the Company; and (c) any employee benefit plan of the Company or a Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Subsidiary of the Company or of a corporation or other entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

1.23. "Proceeding" shall include any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, including, without limitation, any and all appeals, whether brought by or in the right of the Company or otherwise and whether of a civil (including, without limitation, intentional or unintentional tort claims), criminal, administrative or investigative nature, whether formal or informal, in which Indemnitee was, is, will or might be involved as a party or otherwise by reason of the fact that Indemnitee is or was a director or officer of the Company, by reason of any action taken by or omission by Indemnitee, or of any action or omission on Indemnitee's part while acting as a director or officer of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of any other Enterprise; in each case whether or not acting or serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement or advancement of expenses can be provided under this Agreement or Section 145 of the DGCL; including one pending on or before the date of this Agreement but excluding one initiated by Indemnitee to enforce Indemnitee's rights under this Agreement or Section 145 of the DGCL.

1.24. "Related Party" shall mean, with respect to any Person, (a) any controlling stockholder, controlling member, general partner, Subsidiary, spouse or immediate family member (in the case of an individual) of such Person, (b) any estate, trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners or owners of which consist solely of one or more Permitted Holders and/or such other Persons referred to in the immediately preceding clause (a), or (c) any executor, administrator, trustee, manager, director or other similar fiduciary of any Person referred to in the immediately preceding clause (b), acting solely in such capacity.

1.25. "Section 409A" shall have the meaning set forth in Section 17.2.

1.26. "Subsidiary" with respect to any Person, shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

1.27. "Voting Securities" shall mean any securities of the Company (or a surviving entity as described in the definition of a "Change in Control") that vote generally in the election of directors (or similar body).

1.28. References to "fines" shall include any excise tax or penalty assessed on Indemnitee with respect to any employee benefit plan; references to "other enterprise" shall include employee benefit plans; references to "serving at the request of the Company" shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

1.29. The phrase "to the fullest extent not prohibited by (and not merely to the extent affirmatively permitted by) applicable law" shall include, but not be limited to: (a) to the fullest extent authorized or permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL and (b) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

ARTICLE 2

INDEMNITY IN THIRD-PARTY PROCEEDINGS

Subject to Article 8 and Article 11, the Company shall indemnify, hold harmless and exonerate Indemnitee in accordance with the provisions of this Article 2 if Indemnitee is, was or is threatened to be made a party to or a participant (as a witness or otherwise) in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Subject to Article 8 and Article 11, to the fullest extent not prohibited by (and not merely to the extent affirmatively permitted by) applicable law, Indemnitee shall be indemnified against all Expenses, judgments, fines, penalties and, subject to Section 10.3, amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that such conduct was unlawful.

ARTICLE 3

INDEMNITY IN PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY

Subject to Article 8 and Article 11, the Company shall indemnify, hold harmless and exonerate Indemnitee in accordance with the provisions of this Article 3 if Indemnitee is, was or is threatened to be made a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Subject to Article 8 and Article 11, to the fullest extent not prohibited by (and not merely to the extent affirmatively permitted by) applicable law, Indemnitee shall be indemnified, held harmless and exonerated against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Article 3 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged (and not subject to further appeal) by a court of competent jurisdiction to be liable to the Company, except to the extent that the Delaware Court or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

ARTICLE 4

INDEMNIFICATION FOR EXPENSES OF A PARTY WHO IS WHOLLY OR PARTLY SUCCESSFUL

Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. For the avoidance of doubt, if Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, then the Company shall indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each resolved claim, issue or matter, whether or not Indemnitee was wholly or partly successful; provided that Indemnitee shall only be entitled to indemnification for Expenses with respect to unsuccessful claims under this Article 4 to the extent Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that such conduct was unlawful. For purposes of this Article 4 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, or by settlement, shall be deemed to be a successful result as to such claim, issue or matter.

ARTICLE 5

INDEMNIFICATION FOR EXPENSES OF A WITNESS

Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified, held harmless and exonerated against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

ARTICLE 6

ADDITIONAL INDEMNIFICATION, HOLD HARMLESS AND EXONERATION RIGHTS

In addition to and notwithstanding any limitations in Articles 2, 3 or 4, but subject to Article 8 and Article 11, the Company shall indemnify, hold harmless and exonerate Indemnitee to the fullest extent not prohibited by (and not merely to the extent affirmatively permitted by) law if Indemnitee is, was or is threatened to be made a party to or a participant in, any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines, penalties and, subject to Section 10.3, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with the Proceeding. No indemnity shall be available under this Article 6 on account of Indemnitee's conduct that constitutes a breach of Indemnitee's duty of loyalty to the Company or its stockholders or is an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law.

ARTICLE 7

CONTRIBUTION IN THE EVENT OF JOINT LIABILITY

7.1. To the fullest extent not prohibited by (and not merely to the extent affirmatively permitted by) law, if the indemnification rights provided for in this Agreement are unavailable to Indemnitee in whole or in part for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for judgments, liabilities, fines, penalties, amounts paid or to be paid in settlement and/or for Expenses, in connection with any Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

7.2. The Company shall not enter into any settlement of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

7.3. The Company hereby agrees to fully indemnify, hold harmless and exonerate Indemnitee from any claims for contribution which may be brought by officers, directors or employees of the Company (other than Indemnitee) who may be jointly liable with Indemnitee.

ARTICLE 8

EXCLUSIONS

8.1. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity, contribution or advancement of Expenses in connection with any claim made against Indemnitee:

(a) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act (or any similar successor statute) or similar provisions of state statutory law or common law; or

(b) in connection with any Proceeding (or any part of any Proceeding) initiated or brought voluntarily by Indemnitee, including, without limitation, any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, other than a Proceeding initiated by Indemnitee to enforce its rights under this Agreement, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) or (ii) the Company provides the indemnification payment, in its sole discretion, pursuant to the powers vested in the Company under applicable law; or

(c) for the payment of amounts required to be reimbursed to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, as amended, or any similar successor statute; or

(d) for any payment to Indemnitee that is determined to be unlawful by a final judgment or other adjudication of a court or arbitration, arbitral or administrative body of competent jurisdiction as to which there is no further right or option of appeal or the time within which an appeal must be filed has expired without such filing and under the procedures and subject to the presumptions of this Agreement; or

(e) in connection with any Proceeding initiated by Indemnitee to enforce its rights under this Agreement if a court of competent jurisdiction determines by final judicial decision that each of the material assertions made by Indemnitee in such Proceeding was not made in good faith or was frivolous.

The exclusion in Section 8.1(c) shall not apply to counterclaims or affirmative defenses asserted by Indemnitee in an action brought against Indemnitee.

ARTICLE 9

ADVANCES OF EXPENSES; SELECTION OF LAW FIRM

9.1. Subject to Article 8 and Article 11, the Company shall, unless prohibited by applicable law, advance the Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding within ten business days after the receipt by the Company of a statement or statements requesting such advances, together with a reasonably detailed written explanation of the basis therefor and an itemization of legal fees and disbursements in reasonable detail, from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Indemnitee shall qualify for advances, to the fullest extent permitted by this Agreement, solely upon the execution and delivery to the Company of an undertaking providing that Indemnitee undertakes to repay the advance to the extent that it is ultimately determined, by final judicial decision of a court of competent jurisdiction from which there is no further right to appeal, that Indemnitee is not entitled to be indemnified by the Company under the provisions of this Agreement or pursuant to applicable law. This Section 9.1 shall not apply to any claim made by Indemnitee for which an indemnification payment is excluded pursuant to Article 8.

9.2. If the Company shall be obligated under Section 9.1 hereof to pay the Expenses of any Proceeding against Indemnitee, then the Company shall be entitled to assume the defense of such Proceeding upon the delivery to Indemnitee of written notice of its election to do so. If the Company elects to assume the defense of such Proceeding, then unless the plaintiff or plaintiffs in such Proceeding include one or more Persons holding, together with his, her or its Affiliates, in the aggregate, a majority of the combined voting power of the Company's then outstanding Voting Securities, the Company shall assume such defense using a single law firm (in addition to local counsel) selected by the Company representing Indemnitee and other present and former directors or officers of the Company. The retention of such law firm by the Company shall be subject to prior written approval by Indemnitee, which approval shall not be unreasonably withheld, delayed or conditioned. If the Company elects to assume the defense of such Proceeding and the plaintiff or plaintiffs in such Proceeding include one or more Persons holding, together with his, her or its Affiliates, in the aggregate, a majority of the combined voting power of the Company's then outstanding Voting Securities, then the Company shall assume such defense using a single law firm (in addition to local counsel) selected by Indemnitee and any other present or former directors or officers of the Company who are parties to such Proceeding. After (x) in the case of retention of any such law firm selected by the Company, delivery of the required notice to Indemnitee, approval of such law firm by Indemnitee and the retention of such law firm by the Company, or (y) in the case of retention of any such law firm selected by Indemnitee, the completion of such retention, the Company will not be liable to Indemnitee under this Agreement for any Expenses of any other law firm incurred by Indemnitee after the date that such first law firm is retained by the Company with respect to the same Proceeding; provided, that in the case of retention of any such law firm selected by the Company (a) Indemnitee shall have the right to retain a separate law firm in any such Proceeding at Indemnitee's sole expense; and (b) if (i) the retention of a law firm by Indemnitee has been previously authorized by the Company in writing, (ii) Indemnitee shall have reasonably concluded that (1) there may be a conflict of interest between either (x) the Company and Indemnitee or (y) Indemnitee and another present or former director or officer of the Company also represented by such law firm in the conduct of any such defense, or (2) there may be defenses available to Indemnitee that are incompatible or inconsistent with those available to the Company or another present or former director represented by such law firm in the conduct of such defense, or (iii) the Company shall not, in fact, have retained a law firm to prosecute the defense of such Proceeding within thirty days, then the reasonable Expenses of a single law firm retained by Indemnitee shall be at the expense of the Company. Notwithstanding anything else to the contrary in this Section 9.2, the Company will not be entitled without the written consent of the Indemnitee to assume the defense of any Proceeding brought by or in the right of the Company.

ARTICLE 10

PROCEDURE FOR NOTIFICATION; DEFENSE OF CLAIM; SETTLEMENT

10.1. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing promptly of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement; provided, however, that a delay in giving such notice shall not deprive Indemnitee of any right to be indemnified under this Agreement unless, and then only to the extent that, such delay is materially prejudicial to the defense of such claim. The omission or delay to notify the Company will not relieve the Company from any liability for indemnification which it may have to Indemnitee otherwise than under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

10.2. The Company will be entitled to participate in the Proceeding at its own expense.

10.3. The Company shall have no obligation to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any claim effected without the Company's prior written consent, provided the Company has not breached its obligations hereunder. The Company shall not settle any claim, including, without limitation, any claim in which it takes the position that Indemnitee is not entitled to indemnification in connection with such settlement, nor shall the Company settle any claim which would impose any fine or obligation on Indemnitee or attribute to Indemnitee any admission of liability, without Indemnitee's prior written consent. Neither the Company nor Indemnitee shall unreasonably withhold, delay or condition their consent to any proposed settlement.

ARTICLE 11

PROCEDURE UPON APPLICATION FOR INDEMNIFICATION

11.1. Upon written request by Indemnitee for indemnification pursuant to the first sentence ofSection 10.1, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (a) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (b) if a Change in Control shall not have occurred, (i) by a majority vote of the Disinterested Directors (provided there is a minimum of three Disinterested Directors), even though less than a quorum of the Board, (ii) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors (provided there is a minimum of three Disinterested Directors), even though less than a quorum of the Board, or (iii) if there are less than three Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten business days after such determination and any future amounts due to Indemnitee shall be paid in accordance with this Agreement. Indemnitee shall cooperate with the Person making such determination with respect to Indemnitee's entitlement to indemnification, including, without limitation, providing to such Person upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination, provided, that nothing contained in this Agreement shall require Indemnitee to waive any privilege Indemnitee may have. Any costs or expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the Person making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification), and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

11.2. If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 11.1 hereof, the Independent Counsel shall be selected as provided in this Section 11.2. If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten business days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Article 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the Person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court or arbitrator has determined that such objection is without merit. If, within twenty days after submission by Indemnitee of a written request for indemnification pursuant to Section 10.1 hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may seek arbitration for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a Person selected by the arbitrator or by such other Person as the arbitrator shall designate, and the Person with respect to whom all objections are so resolved or the Person so appointed shall act as Independent Counsel under Section 11.1 hereof. Such arbitration referred to in the previous sentence shall be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association, and Article 13 hereof shall apply in respect of such arbitration and the Company and Indemnitee. Upon the due commencement of any judicial proceeding pursuant to Section 13.1 of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

ARTICLE 12

PRESUMPTIONS AND EFFECT OF CERTAIN PROCEEDINGS

12.1. In making a determination with respect to entitlement to indemnification hereunder, the Person making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10.1 of this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by its Board, its Independent Counsel and its stockholders) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification or advancement of expenses is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its Board, its Independent Counsel and its stockholders) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

12.2. If the Person empowered or selected under Article 11 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within thirty days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (a) an intentional misstatement by Indemnitee of a material fact, or an intentional omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (b) a final judicial determination that any or all such indemnification is expressly prohibited under applicable law; provided, however, that such thirty-day period may be extended for a reasonable time, not to exceed an additional fifteen days, if the Person making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

12.3. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement (with or without court approval), conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

12.4. For purposes of any determination of good faith pursuant to this Agreement, Indemnitee shall be deemed to have acted in good faith if, among other things, Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the directors or officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise, its board of directors, any committee of the board of directors or any director, or on information or records given or reports made to the Enterprise, its board of directors, any committee of the board of directors or any director, by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise, its board of directors, any committee of the board of directors or any director. The provisions of this Section 12.4 shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement. In any event, it shall be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

12.5. The knowledge and/or actions, or failure to act, of any other director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

12.6. The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

ARTICLE 13

REMEDIES OF INDEMNITEE

13.1. In the event that (a) a determination is made pursuant to Article 11 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (b) advancement of Expenses, to the fullest extent permitted by applicable law, is not timely made pursuant to Article 9 of this Agreement, (c) no determination of entitlement to indemnification shall have been made pursuant to Section 11.1 of this Agreement within thirty days after receipt by the Company of the request for indemnification and of reasonable documentation and information which Indemnitee may be called upon to provide pursuant to Section 11.1, (d) payment of indemnification is not made pursuant to Articles 4, 5, 6 or the last sentence of Section 11.1 of this Agreement within ten business days after receipt by the Company of a written request therefor, (e) a contribution payment is not made in a timely manner pursuant to Article 7 of this Agreement, (f) payment of indemnification pursuant to Article 3 or 6 of this Agreement is not made within ten business days after a determination has been made that Indemnitee is entitled to indemnification or (g) the Company or any representative thereof takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any Proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court of competent jurisdiction of Indemnitee's entitlement to such indemnification, contribution or advancement of Expenses. Alternatively, Indemnitee, at his or her option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Except as set forth herein, the provisions of Delaware law (without regard to its conflict of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration. The award rendered by such arbitration will be final and binding upon the parties hereto, and final judgment on the arbitration award may be entered in any court of competent jurisdiction.

13.2. In the event that a determination shall have been made pursuant to Section 11.1 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Article 13 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Article 13, Indemnitee shall be presumed to be entitled to receive advances of Expenses under this Agreement and the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be, and the Company may not refer to or introduce into evidence any determination pursuant to Section 11.1 of this Agreement adverse to Indemnitee for any purpose. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Article 13, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Article 9 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal shall have been exhausted or lapsed).

13.3. If a determination shall have been made pursuant to Section 11.1 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Article 13, absent (a) an intentional misstatement by Indemnitee of a material fact or an intentional omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification or (b) a prohibition of such indemnification under applicable law.

13.4. The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Article 13 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

13.5. The Company shall indemnify and hold harmless Indemnitee to the fullest extent permitted by law against all Expenses and, if requested by Indemnitee, shall (within ten days after the Company's receipt of such written request) pay to Indemnitee, to the fullest extent permitted by applicable law, such Expenses which are incurred by Indemnitee in connection with any judicial proceeding or arbitration brought by Indemnitee (a) to enforce his or her rights under, or to recover damages for breach of, this Agreement or any other indemnification, advancement or contribution agreement or provision of the Certificate of Incorporation, or the Bylaws now or hereafter in effect; or (b) for recovery or advances under any insurance policy maintained by any Person for the benefit of Indemnitee, regardless of the outcome and whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement, contribution or insurance recovery, as the case may be (unless such judicial proceeding or arbitration was not brought by Indemnitee in good faith).

13.6. Interest shall be paid by the Company to Indemnitee at the legal rate under Delaware law for amounts which the Company indemnifies, or is obliged to indemnify, for the period commencing with the date on which Indemnitee requests indemnification, contribution, reimbursement or advancement of any Expenses and ending with the date on which such payment is made to Indemnitee by the Company.

ARTICLE 14

SECURITY

Notwithstanding anything herein to the contrary, to the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

ARTICLE 15

NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE; PRIMACY OF INDEMNIFICATION; SUBROGATION

15.1. The rights of Indemnitee as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. To the extent that a change in applicable law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Certificate of Incorporation, the Bylaws or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

15.2. The DGCL and the Certificate of Incorporation permit the Company to purchase and maintain insurance or furnish similar protection or make other arrangements, including, but not limited to, providing a trust fund, letter of credit or surety bond ("Indemnification Arrangements") on behalf of Indemnitee against any liability asserted against Indemnitee or incurred by or on behalf of Indemnitee or in such capacity as a director, officer, employee or agent of the Company, or arising out of his or her status as such, whether or not the Company would have the power to indemnify Indemnitee against such liability under the provisions of this Agreement or under the DGCL, as it may then be in effect. The purchase, establishment and maintenance of any such Indemnification Arrangement shall not in any way limit or affect the rights and obligations of the Company or of Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights and obligations of the Company or the other party or parties thereto under any such Indemnification Arrangement.

15.3. To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, trustees, partners, managing members, fiduciaries, employees or agents of the Company or of any other Enterprise which such Person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, trustee, partner, managing member, fiduciary, employee or agent under such policy or policies. If, at the time the Company receives notice from any source of a Proceeding as to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

15.4. In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers reasonably required and take all action reasonably necessary to secure such rights, including, without limitation, execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

15.5. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

15.6. The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification payments or advancement of Expenses from such Enterprise. Notwithstanding any other provision of this Agreement to the contrary, (a) Indemnitee shall have no obligation to reduce, offset, allocate, pursue or apportion any indemnification advancement, contribution or insurance coverage among multiple parties possessing such duties to Indemnitee prior to the Company's satisfaction and performance of all its obligations under this Agreement, and (b) the Company shall perform fully its obligations under this Agreement without regard to whether Indemnitee holds, may pursue or has pursued any indemnification, advancement, contribution or insurance coverage rights against any Person or entity other than the Company.

ARTICLE 16

ENFORCEMENT AND BINDING EFFECT

16.1. The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to serve as a director, officer or key employee of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director, officer or key employee of the Company.

16.2. This Agreement shall be effective as of the date set forth on the first page and may apply to acts or omissions of Indemnitee which occurred prior to such date if Indemnitee was an officer, director, employee or other agent of the Company, or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, at the time such act or omission occurred.

16.3. The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult to prove, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking, among other things, injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. The Company and Indemnitee further agree that Indemnitee shall be entitled to such specific performance and injunctive relief, including, without limitation, temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by the Court, and the Company hereby waives any such requirement of such a bond or undertaking.

ARTICLE 17

MISCELLANEOUS

17.1. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and Indemnitee's assigns, heirs, executors and administrators. The Company shall require and cause any successor (whether direct or indirect successor by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

17.2. Section 409A. It is intended that any indemnification payment or advancement of Expenses made hereunder shall be exempt from Section 409A of the Internal Revenue Code of 1986, as amended, and the guidance issued thereunder ("Section 409A") pursuant to Treasury Regulation Section 1.409A-1(b)(10). Notwithstanding the foregoing, if any indemnification payment or advancement of Expenses made hereunder shall be determined to be "nonqualified deferred compensation" within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of Expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of Expenses during any other taxable year, (ii) the indemnification payments or advancement of Expenses must be made on or before the last day of the Indemnitee's taxable year following the year in which the expense was incurred and (iii) the right to indemnification payments or advancement of Expenses hereunder is not subject to liquidation or exchange for another benefit.

17.3. Severability. In the event that any provision of this Agreement is determined by a court to require the Company to do or to fail to do an act which is in violation of applicable law, such provision (including, without limitation, any provision within a single Article, Section, paragraph or sentence) shall be limited or modified in its application to the minimum extent necessary to avoid a violation of law, and, as so limited or modified, such provision and the balance of this Agreement shall be enforceable in accordance with their terms to the fullest extent permitted by law.

17.4. Entire Agreement. Without limiting any of the rights of Indemnitee under the Certificate of Incorporation or Bylaws, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

17.5. Modification, Waiver and Termination. No supplement, modification, termination, cancellation or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

17.6. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed or (b) mailed by certified or registered mail with postage prepaid on the third business day after the date on which it is so mailed:

(i) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide in writing to the Company.

(ii) If to the Company, to:
Greenlane Holdings, Inc.
1095 Broken Sound Parkway, Suite 300
Boca Raton, Florida 33487
Attn: General Counsel
Telephone: (561) 571-9581

or to any other address as may have been furnished to Indemnitee in writing by the Company.

17.7. Applicable Law. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. If, notwithstanding the foregoing sentence, a court of competent jurisdiction shall make a final determination that the provisions of the law of any state other than Delaware govern indemnification by the Company of Indemnitee, then the indemnification provided under this Agreement shall in all instances be enforceable to the fullest extent permitted under such law, notwithstanding any provision of this Agreement to the contrary.

17.8. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

17.9. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

17.10. Representation by Counsel. Each of the parties has been represented by and has had an opportunity to consult legal counsel in connection with the negotiation and execution of this Agreement. No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party by any court or arbitrator or any governmental authority by reason of such party having drafted or being deemed to have drafted such provision.

17.11. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

17.12. Additional Acts. If for the validation of any of the provisions in this Agreement any act, resolution, approval or other procedure is required, the Company undertakes to cause such act, resolution, approval or other procedure to be affected or adopted in a manner that will enable the Company to fulfill its obligations under this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the day and year first above written.

COMPANY:

GREENLANE HOLDINGS, INC.

By: ______________________________

Name:
Title:

INDEMNITEE:

By: ______________________________

Name:
Address:

[Signature page to Indemnification Agreement]

Schedule A

Indemnitee	Date
Aaron LoCascio	April 17, 2019
Adam Schoenfeld	April 17, 2019
Sasha Kadey	April 17, 2019
Jay Scheiner	April 17, 2019
Ethan Rudin	April 17, 2019
Douglas Fischer	April 17, 2019
Neil Closner	April 17, 2019
Richard Taney	April 17, 2019
Jeff Uttz	April 17, 2019

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron LoCascio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Greenlane 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)) [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942] 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. [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942];

    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: May 9, 2019

/s/ AARON LOCASCIO
Aaron LoCascio
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ethan Rudin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Greenlane 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)) [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942] 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. [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942];

    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: May 9, 2019

/s/ ETHAN RUDIN
Ethan Rudin
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Greenlane Holdings, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aaron LoCascio, the Chief Executive Officer of the Company, and I, Ethan Rudin, the Chief Financial Officer of the Company, certify, to our knowledge, pursuant to 18 U.S.C. §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 Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 9, 2019

/s/ AARON LOCASCIO
Aaron LoCascio
Chief Executive Officer

/s/ ETHAN RUDIN
Ethan Rudin
Chief Financial Officer

EXPLANATORY NOTE

The following is an excerpt of pages 24 through 60 of the final IPO prospectus filed by Greenlane Holdings, Inc. (the "Company"), pursuant to Rule 424(b) of the Securities Act of 1933, as amended, with the Securities and Exchange Commission on April 22, 2019. The Company is filing the excerpt below for the sole purpose of incorporating it by reference in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

RISK FACTORS

An investment in our Class A common stock involves a high degree of risk and many uncertainties. You should carefully consider the specific factors listed below together with the other information included in this prospectus before purchasing our Class A common stock in this offering. If any of the possibilities described as risks below actually occurs, our operating results and financial condition would likely suffer and the trading price of our Class A common stock could fall, causing you to lose some or all of your investment. The following is a description of what we consider the key challenges and material risks to our business and an investment in our Class A common stock.

Risks Related to Our Business and Industry

We have experienced rapid growth, both domestically and internationally, and expect continued future growth, including growth from additional acquisitions. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately. Furthermore, our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and teamwork fostered by our culture, and our business may be harmed.

We have recently experienced a period of rapid growth in our business, operations, and employee headcount. Our net sales increased to $178.9 million in the year ended December 31, 2018 from $66.7 million in the year ended December 31, 2016, representing a 168.3% increase. We shipped over 16.0 million product units to our B2B customers in the year ended December 31, 2018 compared to over 2.0 million product units to our B2B customers in fiscal year 2016, representing a growth rate of approximately 687.3%. We grew our employee head count from 89 employees as of January 1, 2016 to 256 employees as of December 31, 2018.

We intend to continue to grow our business through the expansion of our product offerings, product shipments, our commercial, administrative and marketing operations and overall employee headcount. Our success will depend, in part, on our ability to manage this growth, both domestically and internationally. Any growth in, or expansion of, our business is likely to continue to place a strain on our management and administrative resources, infrastructure and systems. As with other growing businesses, we expect that we will need to further refine and expand our business development capabilities, our systems and processes and our access to financing sources. We will also need to hire, train, supervise, and manage new employees. These processes are time consuming and expensive and will increase management responsibilities and divert management attention. We cannot assure that we will be able to:

- expand our product offerings effectively or efficiently or in a timely manner, if at all;
- allocate our human resources optimally;
- meet our capital needs;
- identify and hire qualified employees or retain valued employees;
- effectively incorporate the components of any business or product line that we may acquire in our effort to achieve growth; or
- continue to grow our business rapidly.

Our inability or failure to manage our growth and expansion effectively could harm our business and materially adversely affect our operating results and financial condition. In addition, we believe that an important contributor to our success has been and will continue to be our corporate culture, which we believe fosters innovation, teamwork and a passion for our products and customers. As a result of our rapid growth, we may find it difficult to build and maintain our strong corporate culture, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain current and recruit new personnel, continue to perform at current levels or execute on our business strategy.

The market for vaporizer products and related items is a niche market, subject to a great deal of uncertainty and is still evolving.

Vaporizer products comprise a significant portion of our product portfolio. Many of these products have only recently been introduced to the market and are at an early stage of development. These products represent core components of a niche market that is evolving rapidly, is characterized by a number of market participants and is subject to regulatory oversight and a potentially fluctuating regulatory framework. Rapid growth in the use of, and interest in, vaporizer products are recent, and may not continue on a lasting basis. The demand and market acceptance for these products is subject to a high level of uncertainty, including, but not limited to, changes in governmental regulation, developments in product technology, perceived safety and efficacy of our products, perceived advantages of competing products and sale and use of materials that can be vaporized, including in the expanding legal national and state cannabis markets. Therefore, we are subject to many of the business risks associated with a new enterprise in a niche market. Continued technical evolution, market uncertainty, evolving regulation and the resulting risk of failure of our new and existing product offerings in this market could have a material adverse effect on our ability to build and maintain market share and on our business, results of operations and financial condition. Further, there can be no assurance that we will be able to continue to effectively compete in this marketplace.

We depend on third-party suppliers for our products and may experience unexpected supply shortages.

We depend on third-party suppliers for our vaporization products and consumption accessories product offerings. Our customers associate certain characteristics of our products, including the weight, feel, draw, flavor, packaging and other unique attributes, to the brands we market, distribute and sell. In the future, we may have difficulty obtaining the products we need from our suppliers as a result of unexpected demand or production difficulties that might extend lead times. Also, products may not be available to us in quantities sufficient to meet our customer demand. Any interruption in supply and/or consistency of these products may adversely impact our ability to deliver products to our customers, may harm our relationships and reputation with our customers, and may have a material adverse effect on our business, results of operations and financial condition.

A significant percentage of our revenue is dependent on sales of products from a relatively small number of key suppliers, and a decline in sales of products from these suppliers could materially harm our business.

A significant percentage of our revenue is dependent on sales of products, primarily vaporizers and related components, that we purchase from a small number of key suppliers, including PAX Labs and JUUL Labs. For example, products manufactured by PAX Labs represented approximately 15.6% and 29.4% of our net sales in the years ended December 31, 2018 and 2017, respectively, and products manufactured by JUUL Labs represented approximately 36.5% and 11.4% of our net sales in the years ended December 31, 2018 and 2017, respectively. A decline in sales of any of our key suppliers' products, whether due to decreases in supply of, or demand for, their products, termination of our agreements with them, regulatory actions or otherwise, could have a material adverse impact on our sales and earnings and adversely affect our business.

The FDA has recently expressed growing concern about the popularity among youth of the products of JUUL Labs and other manufactures of flavored ENDS products, and regulatory actions may impact our ability to sell these products in the United States or online.

On April 24, 2018, the FDA issued a letter to JUUL Labs requesting documents relating to marketing practices and research on marketing, effects of product design, public health impact, and adverse experiences and complaints related to JUUL products. All information for this request was to be received by the FDA no later than June 19, 2018. FDA Commissioner Scott Gottlieb, M.D. issued an FDA statement on April 24, 2018 announcing that the FDA has been conducting a large-scale, undercover nationwide action to crack down on the sale of e-cigarettes, specifically JUUL products, to minors at both brick-and-mortar and online retailers. The FDA indicated that this action had already revealed numerous violations of the law, and that as a result of these and other identified instances of the sale of JUUL products to minors, the FDA was issuing warning letters and civil penalties and fines. The FDA also advised that it had contacted retailers such as 7-Eleven, Circle K, AM/PM Arco, Walgreens and other national or regional stores regarding concerns about the sale of these products to minors and to online retailers, such as eBay, regarding concerns over listings of JUUL products on its website.

In the largest coordinated enforcement effort in the FDA's history, the agency subsequently issued more than 1,300 warning letters and civil fines to retailers who illegally sold JUUL and other e-cigarettes to minors during a nationwide, undercover blitz of brick-and-mortar and online stores. It has been widely reported that in October 2018, the FDA seized more than a thousand pages of documents from JUUL Labs related to its sales and marketing practices. The FDA also stated that it could remove their products from the market if JUUL Labs and its manufacturers fail to halt sales to minors. It also raised the possibility of civil or criminal charges if companies, such as JUUL Labs or its distributors and re-sellers, are allowing bulk sales through websites and other online purchases.

On November 15, 2018, the FDA issued a statement in which it announced that it is pursuing actions aimed at addressing the trend of increased use of combustible cigarette use among middle and high school students and released, together with the Centers for Disease Control and Prevention, a national youth tobacco survey, a study that shows a significant increase in the use by teenage children of e-cigarettes and other ENDS, such as the vaporizers sold by JUUL, as alternatives to cigarettes. In such statement, the FDA announced that it is directing the FDA's Center for Tobacco Products to revisit its compliance policy as it relates to ENDS products that are flavored, including all flavors other than tobacco, mint and menthol, and to implement changes that would protect teenagers by mandating that all flavored ENDS products (other than tobacco, mint and menthol) be sold only in age-restricted, in-person locations and, if sold on-line, only under heightened practices for age verification. In addition, it was announced that the FDA will pursue the removal from the market of those ENDS products that are marketed to children or are appealing to the youth market, including any products that use popular children's cartoon or animated characters, or are names of products that are names of products favored by children, such as brands of candy or soda. The FDA also announced its intention to advance a notice of proposed rulemaking that would seek to ban menthol in combustible tobacco products, including cigarettes and cigars.

On November 14, 2018, JUUL Labs announced that, in furtherance of its common goal with the FDA to prevent youth from initiating the use of nicotine, and in anticipation of the above FDA announcement, JUUL Labs plans to eliminate some of its social media accounts, including its U.S. social media accounts on Facebook and Instagram, and it has halted most retail sales of its flavored products in the United States as part of a plan to restrict the access of its products to youth. As part of its plan, JUUL Labs indicated it will temporarily stop selling most of its flavored JUUL pods in all retail stores in the United States, including convenience stores and vape shops, and will restrict sales to adults 21 and over on its secure website. JUUL Labs also indicated that it will start accepting orders for its flavored products only from retail stores and establishments that can legally sell flavors and can implement JUUL Lab's new restricted distribution system, which initially will designate flavored JUUL products as age restricted, require an electronic scan of a customer's government-issued identification card or license verifying the purchaser's age to be 21 or more for restricted JUUL products regardless of local laws and limit the quantity of items that can be purchased at one time to prevent bulk purchases.

We expect that our sales will be adversely impacted by the U.S. restriction of sales of flavored JUUL products, at least in the near term. Flavored products manufactured by JUUL Labs represented approximately 16.2% and 4.8% of our net sales for the years ended December 31, 2018 and 2017, respectively.

On March 13, 2019, the FDA issued a statement (i) proposing to end its current compliance policy as it relates to flavored ENDS products (other than tobacco-, mint-, and menthol-flavored), and (ii) stating its expectation that manufacturers of all flavored ENDS products (other than tobacco-, mint-, and menthol-flavored) that remain in the market will submit their premarket applications to the FDA demonstrating that such products meet the public health standard by August 8, 2021, which is one year earlier than previously required. Under this proposed policy, the FDA stated its intentions to withdraw its prior statement of intent not to enforce the premarket review requirements until August 2022, and to continue deferring enforcement while the ENDS product applications were pending review. The FDA also stated that it will prioritize its enforcement efforts to prevent the access and appeal of the flavored ENDS products to youth. Any regulatory action by the FDA that affects the sale or distribution of ENDS products may have a material adverse effect on our business, results of operations and financial condition.

We may be unable to identify or contract with new suppliers in the event of a disruption to our supply.

In the event of a disruption to our supply of products, we would have to identify new suppliers that can meet our needs. Only a limited number of suppliers may have the ability to produce certain products we sell at the volumes we need, and it could be costly or time-consuming to locate and approve such alternative sources. Moreover, it may be difficult or costly to find suppliers to produce small volumes of products in the event we are looking only to supplement our current supply as suppliers may impose minimum order requirements. In addition, we may be unable to negotiate pricing or other terms with our existing or new suppliers as favorable as those we currently enjoy. We cannot guarantee that a failure to adequately replace or supplement our existing suppliers would not have a material adverse effect on our business, results of operations and financial condition.

Demand for the products we distribute could decrease if the suppliers of these products were to sell a substantial amount of goods directly to consumers in the sectors we serve.

Retailers and consumers of vaporization products and consumption accessories have historically purchased certain amounts of these products directly from suppliers. If our customers were to increase their purchases of products directly from suppliers, or if suppliers seek to increase their efforts to sell such products directly to consumers, we could experience a significant decrease in our business, results of operations and financial condition. These, or other developments that remove us from, or limit our role in, the distribution chain, may harm our competitive position in the marketplace and reduce our sales and earnings and adversely affect our business.

We are vulnerable to third party transportation risks.

We depend on fast and efficient shipping services to distribute our products. Any prolonged disruption of these services may have a material adverse effect on our business, financial condition and results of operations. Rising costs associated with transportation services used by us to receive or deliver our products, including tariffs, may also have a material adverse effect on our business, financial condition and results of operations.

We do not have long-term agreements or guaranteed price or delivery arrangements with most of our suppliers. The loss of a significant supplier would require us to rely more heavily on our other existing suppliers or to develop relationships with new suppliers. Such a loss may have an adverse effect on our product offerings and our business.

While we have exclusive long-term distribution agreements with certain of our suppliers, consistent with industry practice, we do not have guaranteed price or delivery arrangements with most of our suppliers. We generally make our purchases through purchase orders. As a result, we have experienced and may in the future experience inventory shortages or price increases on certain products. Furthermore, our industry occasionally experiences significant product supply shortages, and we sometimes experience customer order backlogs due to the inability of certain suppliers to make available to us certain products as needed. We cannot assure you that suppliers will maintain an adequate inventory of products to fulfill our orders on a timely basis, or at all, or that we will be able to obtain particular products on favorable terms, or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our suppliers, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

In addition, some of our suppliers have the ability to terminate their relationships with us at any time, or to decide to sell, or increase their sales of, their products through other resellers or channels. Although we believe there are numerous suppliers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers, develop relationships with new suppliers or undertake our own manufacturing, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers. Any termination, interruption or adverse modification of our relationship with a key supplier or a significant number of other suppliers would likely adversely affect our operating income, cash flow and future prospects.

Our payments system and the payment systems of our customers depend on third-party providers and are subject to evolving laws and regulations.

We and our retail customers have engaged third-party service providers to perform underlying credit and debit card processing, currency exchange, identity verification and fraud analysis services. If these service providers do not perform adequately or if our relationships, or the relationships of our retail customers with these service providers were to terminate, our ability or the ability of such retail customers to process payments could be adversely affected and our business would be harmed.

The laws and regulations related to payments are complex and are potentially impacted by tensions between federal and state treatment of the vaporization, tobacco, nicotine and cannabis industries. These laws and regulations also vary across different jurisdictions in the United States, Canada and globally. As a result, we are required to spend significant time and effort to comply with those laws and regulations. Any failure or claim of our failure to comply, or any failure by our third-party service providers to comply, could cost us substantial resources, could result in liabilities, or could force us to stop offering our customers the ability to pay with credit cards, debit cards and bank transfers. As we expand the availability of these payment methods or offer new payment methods to our customers in the future, we may become subject to additional regulations and compliance requirements.

Further, through our agreement with our third-party credit card processors, we are indirectly subject to payment card association operating rules and certification requirements, including restrictions on product mix and the Payment Card Industry Data Security Standard, 02 PCIDSS. We also are subject to rules governing electronic funds transfers. Any change in these rules and requirements could make it difficult or impossible for us to comply.

Due to our acceptance of credit cards in our e-commerce business, we are subject to the Payment Card Industry Data Security Standard, designed to protect the information of credit card users. We have had a security incident in the past, which we do not believe reached the level of a breach, that would be reportable under state laws or our other obligations; however there can be no assurance that our determination was correct. In the event our determination is challenged and found to have been incorrect, we may be subject to claims by one or more state attorneys general, federal regulators, or private plaintiffs and we may additionally be subject to claims or fines from credit associations.

We are subject to certain U.S. federal regulations relating to cash reporting.

The U.S. Bank Secrecy Act, enforced by the Financial Crimes Enforcement Network ("FinCEN"), a division of the U.S. Department of the Treasury, requires a party in trade or business to file with the U.S. Internal Revenue Service (the "IRS") a Form 8300 report within 15 days of receiving a cash payment of over $10,000. While we receive very few cash payments for the products we sell, if we fail to comply with these laws and regulations, the imposition of a substantial penalty could have a material adverse effect on our business, results of operations and financial condition.

If we fail to maintain proper inventory levels, our business could be harmed.

We purchase key products from suppliers prior to the time we receive purchase orders from customers. We do this to minimize purchasing costs, the time necessary to fill customer orders, and the risk of non-delivery. However, we may be unable to sell the products we have purchased in advance. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have a material adverse effect on our business, results of operations and financial condition. Conversely, if we underestimate demand for our products or if we fail to acquire the products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, reduce revenue, negatively impact customer relationships and diminish brand loyalty, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Certain of our suppliers provide us with incentives and other assistance that reduce our operating costs, and any decline in these incentives and other assistance could materially harm our operating results.

Certain of our suppliers, including PAX Labs, provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising, among other benefits. We have agreements with many of our suppliers under which they provide us, or they have otherwise consistently provided us, with market price discounts to subsidize portions of our advertising, marketing and distribution costs based upon the amount of coverage we give to their respective products in our catalogs or other advertising and marketing mediums. Any termination or interruption of our relationships with one or more of these suppliers, or modification of the terms or discontinuance of our agreements or arrangements with these suppliers, could adversely affect our operating income and cash flow. For example, the incentives we receive from a particular supplier may be impacted by a number of events outside of our control, including acquisitions, divestitures, management changes or economic pressures affecting such supplier, any of which could materially affect or eliminate the incentives we receive from such supplier.

Our success is dependent in part upon our ability to distribute popular products from new suppliers, as well as the ability of our existing suppliers to develop and market products that meet changes in market demand or regulatory requirements.

Many of the products we sell are generally subject to rapid changes in marketplace demand or regulatory requirements. Our success is dependent, in part, upon the ability of our suppliers to develop and market products that meet these changes. Our success is also dependent on our ability to develop relationships with and sell products from new suppliers that address these changes in market demand or regulatory requirements. To the extent products that address recent changes are not available to us, or are not available to us in sufficient quantities or on acceptable terms, we could encounter increased competition, which would likely adversely affect our business, results of operations and financial condition.

We may not be able to maintain existing supplier relationships or exclusive distributor status with our suppliers, which may affect our ability to offer a broad selection of products at competitive prices and negatively impact our results of operations.

We purchase products for resale both directly from manufacturers and, on occasion, from other sources, all of whom we consider our suppliers. We also maintain certain exclusive relationships with several of our suppliers, which provide us with exclusive rights to distribute their products in certain geographic areas or sales channels, preferred pricing, training, support, preferred access and other significant benefits. In some cases, suppliers require us to meet certain minimum standards in order to retain these qualifications and our exclusive distributor status. If we do not maintain our existing relationships or exclusive distributor status, or if we fail to build new relationships with suppliers on acceptable terms, including our exclusive distribution rights, favorable pricing, manufacturer incentives or reseller qualifications, we may not be able to offer a broad selection of products or continue to offer products from these suppliers at competitive prices, or at all. From time to time, suppliers may be acquired by other companies, terminate our right to sell some or all of their products, modify or terminate our exclusive distributor or qualification status, change the applicable terms and conditions of sale or reduce or discontinue the incentives or supplier consideration that they offer us. Any termination or reduction of our exclusive distributor status with any of our major suppliers, or our failure to build new supplier relationships, could have a negative impact on our operating results. Further, some products may be subject to allocation by the supplier, which could limit the number of units of those products that are available to us and may adversely affect our operating results.

We do not have long-term contracts with most of our customers. The agreements that we do have generally do not commit our customers to any minimum purchase volume. The loss of a significant customer may have a material adverse effect on us.

Our customers generally place orders on an as-needed basis. Consistent with industry practice, we do not have long-term contracts with most of our customers, other than certain retail chains in Canada. In addition, our agreements generally do not commit our customers to any minimum purchase volume. Accordingly, we are exposed to risks from potential adverse financial conditions in the vaporization products and consumption accessories industry, a potentially shifting legal landscape, the general economy, a competitive landscape, a changing technological landscape or changing customer needs or any other change that may affect the demand for our products. We cannot assure you that our customers will continue to place orders with us in similar volumes, on the same terms, or at all. Our customers may terminate their relationships with us or reduce their purchasing volume at any time. Our ten largest customers, in the aggregate, represented approximately 13.0% and 10.9% of our net sales for the years ended December 31, 2018 and 2017, respectively. The loss of a significant number of customers, or a substantial decrease in a significant customer's orders, may have an adverse effect on our revenue.

Changes in our customer, product or competition mix could cause our product margin to fluctuate.

From time to time, we may experience changes in our customer mix, our product mix or our competition mix. Changes in our customer mix may result from geographic expansion or contractions, legislative or enforcement priority changes affecting the products we distribute, selling activities within current geographic markets and targeted selling activities to new customer sectors. Changes in our product mix may result from marketing activities to existing customers, the needs communicated to us from existing and prospective customers and from legislative changes. Changes in our competition mix may result from well-financed competitors entering into our business segment. If customer demand for lower-margin products increases and demand for higher-margin products decreases, our business, results of operations and financial condition may suffer.

Because a majority of our revenues are derived from sales to consumers indirectly through third-party retailers who operate traditional brick-and-mortar locations, the shift of sales to more online retail business could harm our market share and our revenues in certain sectors.

Our current B2B model includes selling our products through third-party retailers. These third-party retailers operate physical brick-and-mortar locations to sell our product to consumers. The current shift in purchasing demographics due to the changing preferences of consumers who are moving from in-store purchases of goods to online purchases creates the additional risks of our current revenue streams being impacted negatively and an overall decrease of market share.

Further, laws in some jurisdictions in which we operate could make collection of receivables difficult, time consuming or expensive. We generally do not require collateral in support of our trade receivables. While we maintain reserves for expected credit losses, we cannot assure these reserves will be sufficient to meet write-offs of uncollectible receivables or that our losses from such receivables will be consistent with our historical performance. Significant write-offs may affect our business, results of operations and financial condition. As we begin selling our products indirectly through large retailers, customer credit risks will expand.

Our ability to distribute certain licensed brands and to use or license certain trademarks may be terminated or not renewed.

We are reliant upon brand recognition in the markets in which we compete, as the industry is characterized by a high degree of brand loyalty and a reluctance of consumers to switch to substitute or unrecognizable brands. Some of the brands we distribute and the trademarks under which products are sold are licensed for a fixed period of time with regard to specified markets.

In the event that the licenses to use the brand names and trademarks for the products we distribute are terminated or are not renewed after the end of the term, there is no guarantee we or our suppliers will be able to find suitable replacement brands or trademarks, or that if a replacement is found, that it will be on favorable terms. Any loss in brand-name appeal to our existing customers as a result of the lapse or termination of our licenses or the licenses of our suppliers could have a material adverse effect on our business, results of operations and financial condition.

We may not be successful in maintaining the consumer brand recognition and loyalty of our products.

We compete in a market that relies on innovation and the ability to react to evolving consumer preferences. The vaporization products and consumption accessories industry, as well as the nicotine industries, are subject to changing consumer trends, demands and preferences. Therefore, products once favored may, over time, become disfavored by consumers or no longer perceived as the best option. Consumers in the vaporizer market have demonstrated a degree of brand loyalty, but suppliers must continue to adapt their products in order to maintain their status among customers as the market evolves. Our continued success depends in part on our ability and our supplier's ability to continue to differentiate the brand names we represent, own or license and maintain similarly high levels of recognition with target consumers. Trends within the vaporization products and consumption accessories industry change often and our failure to anticipate, identify or react to changes in these trends could, among other things, lead to reduced demand for our products. Factors that may affect consumer perception of our products include health trends and attention to health concerns associated with tobacco, nicotine, herbs, cannabis or other materials used with vaporizers, price-sensitivity in the presence of competitors' products or substitute products and trends in favor of new vaporization products or technology consumption accessories products that are currently being researched and produced by participants in our industry. For example, in recent years, we have witnessed a shift in consumer purchases from vaporizers designed for dry herbs to those utilizing cartridges containing liquids or wax type concentrates. A failure to react to similar trends in the future could enable our competitors to grow or establish their brands' market share in these categories before we have a chance to respond.

Regulations may be amended or enacted in the future that would make it more difficult to appeal to consumers or to leverage the brands that we distribute, own or license. Furthermore, even if we are able to continue to distinguish our products, there can be no assurance that the sales, marketing and distribution efforts of our competitors will not be successful in persuading consumers of our products to switch to their products. Some of our competitors have greater access to resources than we do, which better positions them to conduct market research in relation to branding strategies or costly marketing campaigns. Any loss of consumer brand loyalty to our products or in our ability to effectively brand our products in a recognizable way will have a material effect on our ability to continue to sell our products and maintain our market share, which could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to establish sustainable relationships with large retailers or national chains.

We expect to increase sales volume by establishing relationships with large retailers and national chains, particularly in Canada. In connection therewith, we may have to pay slotting fees based on the number of stores in which our products will be carried. We may not be able to develop these relationships or continue to maintain relationships with large retailers or national chains. Our inability to develop and sustain relationships with large retailers and national chains may impede our ability to develop brand and product recognition and increase sales volume and, ultimately, require us to continue to rely on local and more fragmented sales channels, which may have a material adverse effect on our business, results of operations and financial condition. In addition, if we are unable to develop or maintain relationships with large retailers and national chains and such large retailers or national chains take market share from the smaller local and more fragmented sales channels, our business, results of operations and financial condition will be adversely impacted.

New products face intense media attention and public pressure.

Many of our vaporizers and other products, including our recently-introduced line of premium products containing hemp-derived CBD, are new to the marketplace. Since their introduction, certain members of the media, politicians, government regulators and advocacy groups, including independent doctors, have called for stringent regulation of the sale of certain of such products and in some cases, an outright ban of such products pending increased regulatory review and a further demonstration of safety. A ban of this type would likely have the effect of terminating our sales and marketing efforts of certain products in jurisdictions in which we may currently market or have plans to market such products. Such a ban would also likely cause public confusion as to which products are the subject of bans, which confusion could also have a material adverse effect on our business, results of operations and financial condition.

Our success depends, in part, on the quality and safety of our products, as well as the perception of quality and safety in the vaporization products and consumption accessories industry generally.

Our success depends, in part, on the quality and safety of the products we sell, including manufacturing issues and unforeseen product misuse. Even a single incident of product defect or misuse, whether relating to products sold by us or just to our industry generally, could result in significant harm to our reputation. If any of our products are found to be, or are perceived to be, defective or unsafe, or if they otherwise fail to meet our customers' standards, our relationship with our customers could suffer, our reputation or the appeal of our brands could be diminished, and we could lose market share and or become subject to liability claims, any of which could result in a material adverse effect on our business, results of operations and financial condition.

Damage to our reputation, or that of any of our key suppliers or their brands, could affect our business performance.

The success of our business depends in part upon the positive image that consumers have of the third-party brands we distribute. Incidents, publicity or events arising accidentally or through deliberate third-party action that harm the integrity or consumer support of our products could affect the demand for our products. Unfavorable media, whether accurate or not, related to our industry, to us, to our customers, or to the products we sell could negatively affect our corporate reputation, stock price, ability to attract high-quality talent, or the performance of our business. Negative publicity or commentary on social media outlets also could cause consumers to react rapidly by avoiding our products and brands or by choosing brands offered by our competitors, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to substantial and increasing regulation regarding the tobacco industry.

The tobacco industry, of which some of our vaporizer products are deemed to be a part, has been under public scrutiny for many years. Industry critics include special interest groups, the U.S. Surgeon General and many legislators and regulators at the state, federal and provincial levels. A wide variety of federal, state or provincial and local laws limit the advertising, sale and use of tobacco and these laws have proliferated in recent years. Together with changing public attitudes towards tobacco and nicotine consumption, the constant expansion of regulations has been a major cause of the overall decline in the consumption of tobacco products since the early 1970s. These regulations relate to, among other things, the importation of tobacco products and shipping throughout the North American market, increases in the minimum age to purchase tobacco products, imposition of taxes, sampling and advertising bans or restrictions, flavor bans or restrictions, ingredient and constituent disclosure requirements and media campaigns and restrictions on where tobacco can be consumed. Additional restrictions may be legislatively imposed or agreed to in the future. These limitations may make it difficult for us to maintain the sales levels of our regulated vaporizer products.

Moreover, the current trend is toward increasing regulation of the tobacco industry, which is likely to differ between the various U.S. states and Canadian provinces in which we currently conduct business. Extensive and inconsistent regulation by multiple states or provinces and at different governmental levels could prove to be particularly disruptive to our business as well, as we may be unable to accommodate such regulations in a cost-effective manner that will allow us to continue to compete in an economically-viable way. Tobacco regulations are often introduced without the tobacco industry's input and have been a significant reason behind reduced sales volumes and increased illicit trade in the tobacco industry. Such regulations also may impact our sales volumes to the extent they apply to the vaporizer products we sell.

On June 22, 2009, the Family Smoking Prevention and Tobacco Control Act (the "Tobacco Control Act") authorized the FDA to regulate the tobacco industry and amended the Federal Cigarette Labeling and Advertising Act, which governs how cigarettes can be advertised and marketed. In addition to the FDA, we are subject to regulation by numerous other federal agencies, including the Federal Trade Commission, the Alcohol and Tobacco Tax and Trade Bureau, the Federal Communications Commission, the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, U.S. Customs and Border Protection and the U.S. Center for Disease Control and Prevention's Office on Smoking and Health. There have also been adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, which have received widespread public attention. There can be no assurance as to the ultimate content, timing or effect of any regulation of tobacco or nicotine products by governmental bodies, nor can there be any assurance that potential corresponding declines in demand resulting from negative media attention would not have a material adverse effect on our business, results of operations and financial condition.

There is uncertainty related to the regulation of vaporization products and certain other consumption accessories. Increased regulatory compliance burdens could have a material adverse impact on our business development efforts and our operations.

United States

There is uncertainty regarding whether, in what circumstances, how and when the FDA will seek to enforce regulations under the Tobacco Control Act relative to vaporizer hardware and accessories that can be used to vaporize cannabis and other material, including electronic cigarettes, rolling papers and glassware, in light of the potential for dual use with tobacco.

The Tobacco Control Act, enacted in 2009, established, by statute, that the FDA has oversight over specific types of tobacco products (cigarettes, cigarette tobacco, roll-your-own ("RYO") tobacco, and smokeless tobacco) and granted the FDA the authority to "deem" other types of tobacco products as subject to the statutory requirements. In addition to establishing authority, defining key terminology, and setting adulteration and misbranding standards, the Tobacco Control Act established authority over tobacco products in a number of areas such as: submission of health information to the FDA; registration with the FDA; requirements prior to marketing products; good manufacturing practice requirements; tobacco product standards; notification, recall, corrections, and removals; records and reports; marketing considerations and restrictions; post-market surveillance and studies; labeling and warnings; and recordkeeping and tracking.

In December 2010, the U.S. Court of Appeals for the D.C. Circuit held that the FDA is permitted to regulate vaporizer devices containing tobacco-derived nicotine as "tobacco products" under the Tobacco Control Act.

In a final rule effective August 8, 2016, the FDA "deemed" all products that meet the Tobacco Control Act's definition of "tobacco product," including components and parts but excluding accessories of the newly deemed products, to be subjected to the tobacco control requirements of the Food, Drug, and Cosmetic Act and the FDA's implementing regulations. This includes among other things: products such as electronic cigarettes, electronic cigars, electronic hookahs, vape pens, vaporizers and e-liquids and their components or parts (such as tanks, coils and batteries) ("ENDS").

The FDA's interpretation of components and parts of a tobacco product includes any assembly of materials intended or reasonably expected to be used with or for the human consumption of a tobacco product.

In a 2017 decision of the D.C. Circuit court, the court upheld the FDA's authority to regulate ENDS even though they do not actually contain tobacco, and even if the products could be used with nicotine-free e-liquids.

The Tobacco Control Act and implementing regulations restrict the way tobacco product manufacturers, retailers, and distributors can advertise and promote tobacco products, including a prohibition against free samples or the use of vending machines, requirements for presentation of warning information, and age verification of purchasers.

Newly-deemed tobacco products are also subject to the other requirements of the Tobacco Control Act, such as that they not be adulterated or misbranded. The FDA has been directed under the Tobacco Control Act to establish specific good manufacturing practice ("GMP") regulations for tobacco products, and could do so in the future, which could have a material adverse impact on the ability of some of our suppliers to manufacture, and the cost to manufacture, certain of our products. Even in the absence of specific GMP regulations, a facility's failure to maintain sanitary conditions or to prevent contamination of products could result in the FDA deeming the products produced there adulterated.

In light of the laws noted above, we anticipate that authorizations will be necessary in order for us to continue our distribution of certain vaporizer hardware and accessories that can be used to vaporize cannabis and other material. Tobacco Control Act compliance dates vary depending upon type of application submitted, but all newly-deemed products that were marketed before August 8, 2016 will require an application no later than August 8, 2021, for "combustible" products (e.g. cigar and pipe) and August 8, 2022, for "non-combustible" products (e.g. vapor products) with the exception of "grandfathered" products (products in commerce as of February 15, 2007) that are already authorized, unless the FDA grants extensions to these compliance periods. Since there were virtually no e-liquid, e-cigarettes or other vaping products on the market as of February 15, 2007, there is no way to utilize the less onerous substantial equivalence or substantial equivalence exemption pathways that traditional tobacco corporations can utilize. Products entering the market after August 8, 2016 are not covered by the FDA compliance policy described above, and will be subject to enforcement if marketed without authorization.

We expect our suppliers to timely file for the appropriate authorizations to allow us to sell their products in the United States. We have no assurances that the outcome of such processes will result in these products receiving marketing authorizations from the FDA. If the FDA establishes regulatory processes that our suppliers are unable or unwilling to comply with, our business, results of operations, financial condition and prospects could be adversely affected.

The anticipated costs to our suppliers of complying with future FDA regulations will be dependent on the rules issued by the FDA, the timing and clarity of any new rules or guidance documents accompanying these rules, the reliability and simplicity (or complexity) of the electronic systems utilized by the FDA for information and reports to be submitted, and the details required by the FDA for such information and reports with respect to each regulated product (which have yet to be issued by the FDA). Any failure to comply with existing or new FDA regulatory requirements could result in significant financial penalties to us or our suppliers, which could ultimately have a material adverse effect on our business, results of operations, financial condition and ability to market and sell our products. Compliance and related costs could be substantial and could significantly increase the costs of operating in the vaporization products and certain other consumption accessories markets.

In addition, failure to comply with the Tobacco Control Act and with FDA regulatory requirements could result in litigation, criminal convictions or significant financial penalties and could impair our ability to market and sell some of our vaporizer products. At present, we are not able to predict whether the Tobacco Control Act will impact our business to a greater degree than competitors in the industry, thus affecting our competitive position.

It has not been conclusively determined whether the Prevent All Cigarette Trafficking Act or the Federal Cigarette Labeling and Advertising Act currently apply to vaporization products and certain other consumption accessories. At the state level, over 25 states have implemented statewide regulations that prohibit vaping in public places. Some cities have also implemented more restrictive measures than their state counterparts, such as San Francisco, which in June 2018, approved a new ban on the sale of flavored tobacco products, including vaping liquids and menthol cigarettes. There may, in the future, also be increased regulation of additives in smokeless products and internet sales of vaporization products and certain other consumption accessories. The application of either or both of these federal laws, and of any new laws or regulations which may be adopted in the future at a state, provincial or local level, to vaporization products, consumption accessories or such additives could result in additional expenses and require us to change our advertising and labeling, and methods of marketing and distribution of our products, any of which could have a material adverse effect on our business, results of operations and financial condition.

Canada

On May 23, 2018, the Tobacco and Vaping Products Act ("TVPA") became effective, and now governs the manufacture, sale, labeling and promotion of vaping products sold in Canada. The TVPA replaced the former Tobacco Act (Canada) and establishes a legislative framework that applies to vaping products, whether or not they contain nicotine. While the TVPA prescribes high-level requirements in relation to vaping products, the Government of Canada has yet to implement regulations that will ultimately address the standards, testing methods, reporting requirements, packaging and labeling requirements, and other obligations with which vaping products will be required to comply. Accordingly, absent any such regulations, there is a lack of visibility as to the specific compliance regime that will apply to vaping products in the future. As such, there can be no assurance that we will initially be in total compliance, remain competitive, or financially able to meet future requirements administered pursuant to the TVPA.

Prior to the TVPA becoming effective, Health Canada had taken the position that electronic smoking products (i.e., electronic products for the vaporization and administration of inhaled doses of nicotine, including electronic cigarettes, cigars, cigarillos and pipes, as well as cartridges of nicotine solutions and related products) fell within the scope of the Food and Drugs Act (Canada) ("Food and Drugs Act").

It is not presently clear what implications the enactment of the TVPA will have for Health Canada's role in authorizing vaping products, or on the degree to which it will remain subject to the provisions of Food and Drugs Act. Currently, vaping products with therapeutic or health-related claims are subject to the Food and Drugs Act and related regulations. Until regulations are published and enacted pursuant to the TVPA, a significant degree of uncertainty will remain with respect to compliance landscape for vaping products.

Some of the products we sell contain nicotine, which is considered to be a highly-addictive substance, or other chemicals that some jurisdictions have determined to cause cancer and birth defects or other reproductive harm.

Some of our products, like the JUUL nicotine vaporizers, contain nicotine, a chemical that is considered to be highly addictive. The Tobacco Control Act empowers the FDA to regulate the amount of nicotine found in tobacco products, but not to require the reduction of nicotine yields of a tobacco product to zero. In addition, the State of California has determined that some chemicals found in certain vaporizers cause cancer and birth defects or other reproductive harm. Federal, state or provincial regulations, whether of nicotine levels or other product attributes, may require us to reformulate, recall and/or discontinue certain of the products we may sell from time to time, which may have a material adverse effect on our ability to market our products and have a material adverse effect on our business, results of operations and financial condition.

Significant increases in state and local regulation of our vaporizer products have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions.

There has been increasing activity on the state, provincial and local levels with respect to scrutiny of vaporizer products. State and local governmental bodies across the United States have indicated that vaporization products and certain other consumption accessories may become subject to new laws and regulations at the state and local levels. For example, in January 2015, the California Department of Health declared electronic cigarettes and certain other vaporizer products a health threat that should be strictly regulated like tobacco products. Further, some states and cities, including the State of Iowa, have enacted regulations that require retailers to obtain a tobacco retail license in order to sell electronic cigarettes and vaporizer products. Many states, provinces and some cities have passed laws restricting the sale of electronic cigarettes and certain other vaporizer products. If one or more states or provinces from which we generate or anticipate generating significant sales of vaporizer products bring actions to prevent us from selling our vaporizer products unless we obtain certain licenses, approvals or permits, and if we are not able to obtain the necessary licenses, approvals or permits for financial reasons or otherwise and/or any such license, approval or permit is determined to be overly burdensome to us, then we may be required to cease sales and distribution of our products to those states, which could have a material adverse effect on our business, results of operations and financial condition.

Certain states, provinces and cities have already restricted the use of electronic cigarettes and vaporizer products in smoke-free venues. Additional city, state, provincial or federal regulators, municipalities, local governments and private industry may enact rules and regulations restricting the use of electronic cigarettes and vaporizer products in those same places where cigarettes cannot be smoked. Because of these restrictions, our customers may reduce or otherwise cease using our vaporization products or certain other consumption accessories, which could have a material adverse effect on our business, results of operations and financial condition.

Certain provinces of Canada have passed or propose to pass legislation which will restrict the extent to which e-cigarettes, e-liquid and other vaping products may be displayed or sold. These regulations and future regulations could have a material adverse effect on our business, results of operations and financial condition.

Based on regulations surrounding health-related concerns related to the use of some of our vaporizer products, especially e-cigarettes and those used for tobacco and nicotine intake, possible new or increased taxes by government entities intended to reduce use of our products or to raise revenue, additional governmental regulations concerning the marketing, labeling, packaging or sale of some of our products, negative publicity resulting from actual or threatened legal actions against us or other companies in our industry, all may reduce demand for, or increase the cost of, certain of our products, which could adversely affect our profitability and ultimate success.

Our business depends partly on continued purchases by businesses and individuals selling or using cannabis pursuant to state laws in the United States or Canadian and provincial laws.

Because some of our B2C customers use some of the items that we sell to consume cannabis and some of our B2B customers operate in the legal national and state cannabis industry, our business depends partly on federal, state, provincial and local laws, regulations, guidelines and enforcement pertaining to cannabis. In both the United States and Canada, those factors are in flux.

United States

Currently, in the United States, 33 states and the District of Columbia permit some form of whole-plant cannabis cultivation, sales, and use for certain medical purposes (“medical states”). Ten of those states and the District of Columbia have also legalized cannabis for adults for non-medical purposes (sometime referred to as recreational use). Thirteen additional states have legalized low-tetrahydrocannabinol (“THC”)/high-cannabidiol (“CBD”) extracts for select medical conditions (“CBD states”). Several CBD states are considering legalizing medical cannabis, and several medical states may extend legalization to adult use.

The states’ cannabis programs have proliferated and grown even though the cultivation, sale and possession of cannabis is considered illegal under U.S. federal law. Under the CSA, cannabis is a Schedule I drug, meaning that the Drug Enforcement Administration recognizes no accepted medical use for cannabis, and the substance is considered illegal under federal law.

In an effort to provide guidance to U.S. Attorneys' offices regarding the enforcement priorities associated with cannabis in the United States, the U.S. Department of Justice (the "DOJ") has issued a series of memoranda detailing its suggested enforcement approach. During the administration of former President Obama, each memorandum acknowledged the DOJ's authority to enforce the CSA in the face of state laws, but noted that the DOJ was more committed to using its limited investigative and prosecutorial resources to address the most significant threats associated with cannabis in the most effective, consistent, and rational way.

On August 29, 2013, the DOJ issued what came to be called the "Cole Memorandum," which gave U.S. Attorneys the discretion not to prosecute federal cannabis cases that were otherwise compliant with applicable state law that had legalized medical or adult-use cannabis and that have implemented strong regulatory systems to control the cultivation, production, and distribution of cannabis. The eight federal priorities were preventing:

- The distribution of cannabis to minors;
- Revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- The diversion of cannabis from states where it is legal under state law in some form to other states;
- State-authorized cannabis activities from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- Violence and the use of firearms in the cultivation and distribution of cannabis;
- Drugged driving and exacerbation of other adverse public health consequences associated with cannabis use;
- Growing cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Cannabis possession or use on federal property.

Accordingly, the Cole Memorandum provided lawful cannabis-related enterprises a tacit federal go-ahead in states with legal cannabis programs, provided that the state had adopted and was enforcing strict regulations and oversight of the medical or adult-use cannabis program in accordance with the specific directives of the Cole Memorandum.

On January 4, 2018, Attorney General Jeff Sessions issued a memorandum that rescinded previous DOJ guidance on the state-legal cannabis industry, including the Cole Memorandum. Attorney General Sessions wrote that the previous guidance on cannabis law enforcement was unnecessary, given the well-established principles governing federal prosecution that are already in place. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide whether to prosecute even state-legal adult-use cannabis activities.

Since the Cole Memorandum was rescinded, however, U.S. Attorneys have taken no direct legal action against state law compliant entities. In addition, Attorney General Sessions resigned and left the DOJ. As a nominee, Attorney General William Barr testified before the U.S. Senate and wrote to Congress that, as Attorney General, he would not seek to prosecute cannabis companies that relied on the Cole Memorandum and are complying with state law.

Since December 2014, companies that are strictly complying with state*medical* cannabis laws have been protected against enforcement for that activity by an amendment (originally called the Rohrabacher-Blumenauer Amendment, now called the Joyce Amendment) to the Omnibus Spending Bill, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level. Federal courts have interpreted the provision to bar the DOJ from prosecuting any person or entity in strict compliance with state medical cannabis laws.

While the protection of the Joyce Amendment prevents prosecutions, it does not make cannabis legal. Accordingly, if the protection expires, prosecutors could prosecute federally illegal activity that occurred within the statute of limitations even if the Rohrabacher/Joyce protection was in place when the illegal activity occurred. The protection of the Joyce Amendment depends on its continued inclusion in the federal omnibus spending bill, or in some other legislation, and entities' strict compliance with the state medical cannabis laws. That protection has been extended into 2019 through recent budget negotiations. While industry observers expect Congress to extend the protection in future Omnibus Spending Bills, there can be no assurance that it will do so.

Although several cannabis law reform bills are pending in the U.S. Congress, passage of any of them and ultimately the President's support and approval remain uncertain. President Trump has stated that he would support federal legislation that would defer to states that have legalized cannabis (in other words, if a state legalized cannabis, cannabis in that state would not be federally illegal after the point at which the state legalized it).

Significantly, however, the U.S. government recently changed the legal status of hemp and all of its derivatives, including hemp-based CBD. The Farm Bill, which was signed into law by President Trump on December 20, 2018 (Pub.L. 115-334), established a new framework for the regulation of hemp production (defined in the Farm Bill as Cannabis sativa L. with a THC concentration of not more than 0.3 percent on a dry weight basis) and extracts of hemp, including CBD. The law also removed hemp and extracts of hemp from the federal controlled substances schedules. The section of the Farm Bill establishing a framework for hemp production, however, makes clear explicitly that it does not affect or modify the United States Federal Food, Drug, and Cosmetic Act (the "FDCA"), section 351 of the Public Health Service Act (addressing the regulation of biological products), the authority of the Commissioner of the FDA under those laws, or the Commissioner's authority to regulate hemp production and sale under those laws.

Within hours of President Trump signing the Farm Bill, FDA Commissioner Scott Gottlieb issued a statement that any cannabis product, whether derived from hemp or otherwise, marketed with a disease claim (e.g., a claim of therapeutic benefit or disease prevention) must be approved by the FDA for its intended use through one of the drug approval pathways prior to it being introduced into interstate commerce. The Commissioner reiterated the FDA's position that introducing food or dietary supplements with added CBD (or THC), regardless of source, into interstate commerce is illegal under the FDCA. Although enforcement under the FDCA may be civil or criminal in nature, the FDA has thus far limited its recent enforcement against companies selling CBD products to warning letters alleging various violations of the FDCA, including that the products bear claims that render the products unapproved and misbranded new drugs, that CBD is excluded from the FDCA's definition of "dietary supplement," and that the FDCA prohibits the addition of CBD to food. The FDA also tested some of the products, and found that many did not contain the levels of CBD they claimed to contain, which could be the basis for a separate violation of the FDCA. In addition, some states have taken actions to restrict or prohibit the sale of CBD products under state law. Notably, the FDA could take similar action on products with THC if the federal government ever similarly legalized cannabis.

Until the U.S. Government changes the law with respect to cannabis, and particularly if Congress does not extend the protection of state medical cannabis programs, there is a risk that federal authorities could enforce current federal cannabis law. An increase in federal enforcement against companies licensed under state cannabis laws could negatively impact the state cannabis industries and, in turn, our revenues, profits, financial condition, and business model.

Canada

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation, which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis, published its report outlining its recommendations. On April 13, 2017, the Government of Canada introduced Bill C-45, which proposed the enactment of the *Cannabis Act* to legalize and regulate access to cannabis. The Cannabis Act proposed a strict legal framework for controlling the production, distribution, sale and possession of medical and recreational adult-use cannabis in Canada. On June 21, 2018, the Government of Canada announced that Bill C-45, received Royal Assent. On July 11, 2018, the Government of Canada published the Cannabis Regulations under the Cannabis Act. The Cannabis Regulations provide more detail on the medical and recreational regulatory regimes for cannabis, including regarding licensing, security clearances and physical security requirements, product practices, outdoor growing, security, packaging and labelling, cannabis-containing drugs, document retention requirements, reporting and disclosure requirements, the new access to cannabis for medical purposes regime and industrial hemp. The majority of the Cannabis Act and the Cannabis Regulations came into force on October 17, 2018.

While the Cannabis Act provides for the regulation by the federal government of, among other things, the commercial cultivation and processing of cannabis for recreational purposes, it provides the provinces and territories of Canada with the authority to regulate with respect to the other aspects of recreational cannabis, such as distribution, sale, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

The governments of every Canadian province and territory have implemented regulatory regimes for the distribution and sale of cannabis for recreational purposes. In most provinces and territories, the minimum age is 19 years old, except for Québec and Alberta, where the minimum age is 18. Certain provinces, such as Ontario, have legislation in place that restricts the packaging of vapor products and the manner in which vapor products are displayed or promoted in stores.

The Cannabis Act is a new regime that has no close precedent in Canadian law. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in obtaining, or failure to obtain, applicable regulatory approvals which may be required may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on our business, financial condition and results of operations.

The federal and state regulatory landscape regarding products containing CBD is uncertain and evolving, and new or changing laws or regulations relating to hemp and hemp-derived products could have a material adverse effect on our business, financial condition and results of operations.

We recently commenced distribution of premium products containing hemp-derived CBD. Although the Farm Bill removed hemp and its derivatives from the definition of "marijuana" under the CSA, uncertainties remain regarding the cultivation, sourcing, production and distribution of hemp and products containing hemp derivatives. Each state and the federal government has to develop and have approved its plans for overseeing hemp within its borders. The federal regulations implementing the Farm Bill must also be developed. While we believe our current operations comply with existing federal and state laws relating to hemp and hemp-derived products, we will have to quickly adapt our operations to comply with forthcoming and rapidly-shifting federal and state regulations. These regulations could require significant changes to our business, plans or operations concerning hemp-derived products, and could adversely affect our business, financial condition or results of operations.

Additionally, the FDA has indicated its view that certain types of products containing CBD may not be permissible under the FDCA. The FDA's position is related to its approval of Epidiolex, a marijuana-derived prescription medicine to be available in the United States. The active ingredient in Epidiolex is CBD. On December 20, 2018, after the passage of the Farm Bill, FDA Commissioner Scott Gottlieb issued a statement in which he reiterated the FDA's position that, among other things, the FDA requires a cannabis product (hemp-derived or otherwise) that is marketed with a claim of therapeutic benefit, or with any other disease claim, to be approved by the FDA for its intended use before it may be introduced into interstate commerce and that the FDCA prohibits introducing into interstate commerce food products containing added CBD, and marketing products containing CBD as a dietary supplement, regardless of whether the substances are hemp-derived. While we believe our existing and planned CBD product offerings comply with applicable laws, legal proceedings alleging violations of such laws could have a material adverse effect on our business, financial condition and results of operations.

We are subject to legislative uncertainty that could slow or halt the legalization and use of cannabis, which could negatively affect our business.

Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level, as well as the U.S. government's continued non-enforcement of federal cannabis laws against state-law-compliant cannabis businesses. Any number of factors could slow or halt progress in this area. Further, progress, while generally expected, is not assured. Some industry observers believe that well-funded interests, including businesses in the alcohol beverage and the pharmaceutical industries, may have a strong economic opposition to the continued legalization of cannabis. The pharmaceutical industry, for example, is well funded with a strong and experienced lobby that eclipses the funding of the medical cannabis movement. Any inroads legalization opponents could make in halting the impending cannabis industry could have a detrimental impact on our business. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of those factors could slow or halt the continued legalization and use of cannabis, which would negatively impact our business.

While we believe that our business and sales do not violate the Federal Paraphernalia Law, legal proceedings alleging violations of such law or changes in such law or interpretations thereof could adversely affect our business, financial condition or results of operations.

Under U.S. Code Title 21 Section 863 (the "Federal Paraphernalia Law"), the term "drug paraphernalia" means "any equipment, product or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance." That law exempts "(1) any person authorized by local, State, or Federal law to manufacture, possess, or distribute such items" and "(2) any item that, in the normal lawful course of business, is imported, exported, transported, or sold through the mail or by any other means, and traditionally intended for use with tobacco products, including any pipe, paper, or accessory." Any non-exempt drug paraphernalia offered or sold by any person in violation of the Federal Paraphernalia Law can be subject to seizure and forfeiture upon the conviction of such person for such violation, and a convicted person can be subject to fines under the Federal Paraphernalia Law and even imprisonment.

We believe our sales do not violate the Federal Paraphernalia Law in any material respect. First, we understand that substantially all of the products we offer and sell were and are not primarily intended or designed for any purpose not permitted by the Federal Paraphernalia Law. Indeed, most of the manufacturers whose products we sell disclaim that the products are for use with cannabis. Second, we restrict the sale of certain products — those that may have been primarily intended or designed for use with cannabis, are not normally and lawfully used with or as tobacco or nicotine products, but seem to have grown in popularity by consumers of cannabis sold in the state regulated industry — to comply with the Federal Paraphernalia Law's exemption for sales authorized by state law. In particular, we (a) do not sell those products at all into the six states that have maintained complete or near complete cannabis prohibition and (b) limit the sale of those products to licensed dispensaries and entities, such as licensed cultivators or manufacturers, and sell only to licensed dispensaries in the 11 states that authorize sales of cannabis paraphernalia only through state-licensed dispensaries. Third, we have been in business for many years without facing even threatened legal action under the Federal Paraphernalia Law.

While we believe that our business and sales are legally compliant with the Federal Paraphernalia Law in all material respects, any legal action commenced against us under such law could result in substantial costs and could have an adverse impact on our business, financial condition or results of operations. In addition, changes in cannabis laws or interpretations of such laws are difficult to predict, and could significantly affect our business.

Officials of the U.S. Customs and Border Protection agency ("CBP") have broad discretion regarding products imported into the United States, and the CBP has on occasion seized imported products on the basis that such products violate the Federal Paraphernalia Law. While we believe the products that we import do not violate such law, any such seizure of the products we sell could have a material adverse effect on our business operations or our results of operations.

Officials of the CBP have broad discretion regarding products imported into the United States. Individual shipments of certain imported products of the type we distribute have been detained or seized by the CBP for a variety of reasons, including because the CBP officials inspecting the goods believed such goods were marketed as drug paraphernalia and therefore violated the Federal Paraphernalia Law. Although suppliers or distributors of such products have successfully contested such actions of the CBP, such challenges are costly and time consuming. While we would disagree with any conclusion of the CBP that our product sales violate the Federal Paraphernalia Law, we cannot give any assurance that the CBP will not take similar seizure actions with respect to our goods, or that if the CBP seizes any of our goods that the CBP would not seek to impose penalties related to such imports. Should we elect to contest any such seizure, the costs of doing so could be substantial and there are no assurances we would prevail in a contested proceeding, and the cost and/or results of any such contest could adversely impact our business, financial condition or results of operations. Additionally, if the CBP fails to release seized products, we may no longer be able to ensure a saleable supply of some of our products, which could have a material adverse impact on our business, financial condition and results of operations.

Because our business is dependent, in part, upon continued market acceptance of cannabis by consumers, any negative trends will adversely affect our business operations.

We are dependent on public support, continued market acceptance and the proliferation of consumers in the legal cannabis markets. While we believe that the market and opportunity in the space continue to grow, we cannot predict the future growth rate or size of the market. Any downturns in, or negative outlooks on, the cannabis industry may adversely affect our business and financial condition.

We and our customers may have difficulty accessing the service of banks, which may make it difficult for us and for them to sell our products.

Financial transactions involving proceeds generated by cannabis-related activities can form the basis for prosecution under the U.S. federal money laundering statutes, unlicensed money transmitter statutes and the U.S. Bank Secrecy Act. Guidance issued by FinCEN clarifies how financial institutions can provide services to cannabis-related businesses consistent with their obligations under the Bank Secrecy Act. Furthermore, since the rescission by U.S. Attorney General Jeff Sessions on January 4, 2018 of the Cole Memorandum, U.S. federal prosecutors have had greater discretion when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. As a result, given these risks and their own related disclosure requirements, some banks remain hesitant to offer banking services to cannabis-related businesses. Consequently, those businesses involved in the cannabis industry continue to encounter difficulty establishing banking relationships. While we do not presently have challenges with our banking relationships, should we have an inability to maintain our current bank accounts, or the inability of our more significant customers to maintain their current banking relationships, it would be difficult for us to operate our business, may increase our operating costs, could pose additional operational, logistical and security challenges and could result in our inability to implement our business plan.

Increases in tobacco-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions.

Tobacco products, premium cigarette papers and tubes have long been subject to substantial federal, state, provincial and local excise taxes. Such taxes have frequently been increased or proposed to be increased, in some cases significantly, to fund various legislative initiatives or further disincentivize smoking. Since 1986, smokeless products have been subject to federal excise tax. Smokeless products are taxed by weight (in pounds or fractional parts thereof) manufactured or imported.

Since the State Children's Health Insurance Program ("S-CHIP") reauthorization in early 2009, which utilizes, among other things, taxes on tobacco products to fund health insurance coverage for children, increases in the federal excise tax have been substantial and have materially reduced sales in the RYO/make your own ("MYO") cigarette smoking products market, and also caused volume declines in other markets. Although the RYO/MYO cigarette smoking tobacco and related products market had been one of the fastest growing markets in the tobacco industry in the five years prior to 2009, the reauthorization of S-CHIP increased the federal excise tax on RYO tobacco from $1.10 to $24.78 per pound, and materially reduced the MYO cigarette smoking tobacco market in the United States. There have not been any increases announced since 2009, but we cannot guarantee that we will not be subject to further increases, nor whether any such increases will affect prices in a way that further deters consumers from purchasing certain of our products and/or affects our net revenues in a way that renders us unable to compete effectively.

In addition to federal excise taxes, every state and certain city and county governments have imposed substantial excise taxes on sales of tobacco products, and many have raised or proposed to raise excise taxes in recent years, including Arkansas, Kansas, Louisiana, Minnesota, Nevada, Ohio, Vermont, Oregon, Indiana, Kentucky and Rhode Island. Tax increases, depending on their parameters, may result in consumers switching between tobacco products or depress overall tobacco consumption, which is likely to result in declines in overall sales volumes in certain of our products.

Any future enactment of increases in federal, provincial or state excise taxes on our tobacco products or rulings that certain of our products should be categorized differently for excise tax purposes could adversely affect demand for our products and may result in consumers switching between tobacco products or a depression in overall tobacco consumption, which would have a material adverse effect on our business, results of operations and financial condition.

If our vaporizer products become subject to increased taxes it could adversely affect our business.

Supply to our customers is sensitive to increased sales taxes and economic conditions affecting their disposable income. Discretionary consumer purchases, such as of vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher.

Presently, the sale of vaporization products and certain other consumption accessories is, in certain jurisdictions, subject to federal, state, provincial and local excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, state, provincial and local governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our B2C customers would have to pay for our product offering and adversely affect our operating results.

An increasing number of states have considered or adopted laws that attempt to impose tax collection obligations on out-of-state companies. Additionally, the Supreme Court of the United States recently ruled in *South Dakota v. Wayfair, Inc. et al*, or Wayfair, that online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer's state. In response to Wayfair, or otherwise, states or local governments may adopt, or begin to enforce, laws requiring us to calculate, collect, and remit taxes on sales in their jurisdictions. A successful assertion by one or more states requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state governments or local governments of sales tax collection obligations on out-of-state sellers could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors and decrease our future sales, which could have a material adverse impact on our business, financial condition and results of operations.

We may become involved in regulatory or agency proceedings, investigations and audits.

Our business, and the business of the suppliers from which we acquire the products we sell, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject us or such suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. We or such suppliers may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm our reputation or the reputations of the brands that we sell, require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on our business, financial condition and results of operations.

We may be subject to increasing international control and regulation.

The World Health Organization's Framework Convention on Tobacco Control ("FCTC") is the first international public health treaty that establishes a global agenda to reduce initiation of tobacco use and regulate tobacco in an effort to encourage tobacco cessation. Over 170 governments worldwide have ratified the FCTC, including Canada. The FCTC has led to increased efforts to reduce the supply of and demand for tobacco products and to encourage governments to further regulate the tobacco industry. The tobacco industry and others expect significant regulatory developments to take place over the next few years, driven principally by the FCTC.

If the United States becomes a signatory to the FCTC and/or national laws are enacted in the United States that reflect the major elements of the FCTC, our business, results of operations and financial condition could be materially and adversely affected. In addition, if any of our vaporization products or consumption accessories become subject to one or more of the significant regulatory initiatives proposed under the FCTC or any other international treaty, our business, results of operations and financial condition may also be materially adversely affected.

We currently distribute in select international markets and as part of our strategy, we anticipate further international expansions. Future expansions may subject us to additional or increasing international regulation, either by that country's legal requirements or through international regulatory regimes, such as the FCTC, to which those countries may be signatories.

Some Canadian provinces have restricted sales and marketing of electronic cigarettes, and other provinces are in the process of passing similar legislation. Furthermore, some Canadian provinces have limited the use of vaporizer products and electronic cigarettes in public places. As a result, we are unable to market these products in the relevant parts of Canada. These measures, and any future measures taken to limit the marketing, sale and use of vaporization products or other consumption accessories may have a material adverse effect on our business, results of operations and financial condition.

To the extent our existing or future products become subject to international regulatory regimes that we are unable to comply with or fail to comply with, they may have a material adverse effect on our business, results of operations and financial condition.

We face intense competition and may fail to compete effectively.

The vaporization products and consumption accessories industry is characterized by brand recognition and loyalty, with product quality features, price, marketing and packaging constituting the primary methods of competition. Substantial marketing support, merchandising display, competitive pricing and other financial incentives generally are required to introduce a new brand or to improve or maintain a brand's market position. Our principal competitors may be significantly larger than us and aggressively seek to limit the distribution or sale of our products.

Competition in the vaporization products and consumption accessories industry is particularly intense, and the market is highly fragmented. In addition, some competitors still have the ability to access sales channels through the mail, which is no longer available to us and may place us at a competitive disadvantage.

"Big tobacco" is continuing to establish its presence in the vaporization products and consumption accessories market. There can be no assurance that our products will be able to compete successfully against these companies or any of our other competitors, some of which have far greater resources, capital, experience, market penetration, sales and distribution channels than us. In addition, if large online retailers such as Amazon establish their presence in the vaporization products and consumption accessories market, our B2C internet business may be harmed. Competitors, including "big tobacco" and large online retailers, may also have more resources than us for advertising, which could have a material adverse effect on our ability to build and maintain market share, and thus have a material adverse effect on our business, results of operations and financial condition.

Our narrow margins may magnify the impact of variations in operating costs and of adverse or unforeseen events on operating results.

We are subject to intense price competition. As a result, our gross and operating margins have historically been narrow, and we expect them to continue to be narrow. Narrow margins magnify the impact of variations in operating costs and of gross margin and of unforeseen adverse events on operating results. Future increases in costs, such as the cost of merchandise, wage levels, shipping rates, import duties and fuel costs, may negatively impact our margins and profitability. We are not always able to raise the sales price to offset cost increases or to effect increased operating efficiencies in response to increasing costs. If we are unable to maintain our margins in the future, it could have a material adverse effect on our business, results of operations and financial condition. If we become subject to increased price competition in the future, we cannot assure you that we will not lose market share, that we will not be forced to reduce our prices and further reduce our margins, or that we will be able to compete effectively.

Additionally, promotional activities can significantly increase net sales in the periods in which it is initiated and net sales can be adversely impacted in the periods after a promotion. Accordingly, based upon the timing of our marketing and promotional initiatives, we have and may continue to experience significant variability in our month-to-month results, which could affect our ability to formulate strategies that allow us to maintain our market presence across volatile months. If our monthly sales fluctuations obscure our ability to track important trends in our key markets, it may have a material adverse effect on our business, results of operations and financial condition.

We experience variability in our net sales and net income on a quarterly basis as a result of many factors.

We experience variability in our net sales and net income on a quarterly basis as a result of many factors. These factors include:

- the relative mix of vaporization products and consumption accessories sold during the period;
- the general economic environment and competitive conditions, such as pricing;
- the timing of procurement cycles by our customers;
- seasonality in customer spending and demand for products we provide;
- variability in supplier programs;
- the introduction of new and upgraded products;
- changes in prices from our suppliers;
- trade show attendance;
- promotions;
- the loss or consolidation of significant suppliers or customers;
- our ability to control costs;
- the timing of our capital expenditures;
- the condition of our industry in general;
- any inability on our part to obtain adequate quantities of products;
- delays in the release by suppliers of new products and inventory adjustments;
- delays in the release of imported products by customs authorities;
- our expenditures on new business ventures and acquisitions;
- performance of acquired businesses;
- adverse weather conditions that affect supply or customer response;
- distribution or shipping to our customers; and
- geopolitical events.

Our planned operating expenditures each quarter are based on sales forecasts for the quarter. If our sales do not meet expectations in any given quarter, our operating results for the quarter may be materially adversely affected. Our narrow margins may magnify the impact of these factors on our operating results. We believe that period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. In addition, our results in any quarterly period are not necessarily indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below the expectations of public market analysts or investors and, as a result, the market price of our Class A common stock could be materially adversely affected.

Product defects could increase our expenses, damage our reputation or expose us to liability.

We may not be able to adequately address product defects. Product defects in vaporizers and other accessories may harm the health or safety of our end-consumers. In addition, remedial efforts could be particularly time-consuming and expensive if product defects are only found after we have sold the defective product in volume. Any actual or perceived defects in our products could result in unsold inventory, product recalls, repairs or replacements, damage to our reputation, increased customer service costs and other expenses, as well as divert management attention and expose us to liabilities. Furthermore, a product liability claim brought against us by our customers or end-consumers could be time-consuming and costly to defend and, if successful, could require us to make significant payments.

Contamination of, or damage to, our products could adversely impact sales volume, market share and profitability.

Our market position may be affected through the contamination of our products, as well as the material used during the manufacturing processes of the products we sell, or at different points in the entire supply chain. We keep significant amounts of inventory of our products in warehouses and it is possible that this inventory could become contaminated prior to arrival at our premises or during the storage period. If contamination of our inventory or packaged products occurs, whether as a result of a failure in quality control by us or by one of our suppliers, we may incur significant costs in replacing the inventory and recalling products. We may be unable to meet customer demand and may lose customers who purchase alternative brands or products. In addition, consumers may lose confidence in the affected product.

Under the terms of our contracts, we generally impose requirements on our suppliers to maintain quality and comply with product specifications and requirements, and with all federal, state and local laws. Our suppliers, however, may not continue to produce products that are consistent with our standards or that are in compliance with applicable laws, and we cannot guarantee that we will be able to identify instances in which our suppliers fail to comply with our standards or applicable laws. A loss of sales volume from a contamination event may occur, and such a loss may affect our ability to supply our current customers and to recapture their business in the event they are forced to switch products or brands, even if on a temporary basis. We may also be subject to legal action as a result of a contamination, which could result in negative publicity and affect our sales. During this time, our competitors may benefit from an increased market share that could be difficult and costly to regain. Such a contamination event could have a material adverse effect on our business, results of operations and financial condition.

We may not have adequate insurance for potential liabilities, including liabilities arising from litigation.

In the ordinary course of business, we have and in the future may become the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, the products we distribute, our employees and other matters, including potential claims by individuals alleging exposure to hazardous materials as a result of the products we distribute. Some of these claims may relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of the businesses. The products we distribute may contain lithium ion or similar type batteries that can explode or release hazardous substances. In addition, defects in the products we distribute could result in death, personal injury, property damage, pollution, release of hazardous substances or damage to equipment and facilities. Actual or claimed defects in the products we distribute may give rise to claims against us for losses and expose us to claims for damages.

We maintain insurance to cover certain of our potential losses, and we are subject to various self-retentions, deductibles and caps under our insurance. We face the following risks with respect to our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may incur losses from interruption of our business that exceed our insurance coverage;
- we may be faced with types of liabilities that will not be covered by our insurance;
- our insurance carriers may not be able to meet their obligations under the policies; or
- the dollar amount of any liabilities may exceed our policy limits.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on us. Finally, even in cases where we maintain insurance coverage, our insurers may raise various objections and exceptions to coverage that could make uncertain the timing and amount of any possible insurance recovery.

Due to our position in the supply chain of vaporization products and consumption accessories, we are subject to personal injury, product liability and environmental claims involving allegedly defective products.

Our customers use certain products we distribute in potentially hazardous applications that can result in personal injury, product liability and environmental claims. A catastrophic occurrence at a location at which consumers use the products we distribute may result in our company being named as a defendant in lawsuits asserting potentially large claims, even though we did not manufacture such products or even if such products were not used in the manner recommended by the manufacturer. Applicable law may render us liable for damages without regard to negligence or fault. Certain of these risks are reduced by the fact that we are a distributor of products that third-party manufacturers produce, and, thus, in certain circumstances, we may have third-party warranty or other claims against the manufacturer of products alleged to have been defective. However, there is no assurance that these claims could fully protect us or that the manufacturer would be financially able to provide protection. There is no assurance that our insurance coverage will be adequate to cover the underlying claims. Our insurance does not provide coverage for all liabilities (including liability for certain events involving pollution or other environmental claims).

We may become subject to significant product liability litigation.

The tobacco industry has experienced and continues to experience significant product liability litigation. As a result of their relative novelty, electronic cigarette, vaporizer product and other consumption product manufacturers, suppliers, distributors and sellers have only recently become subject to litigation. While we have not been a party to any product liability litigation, several lawsuits have been brought against other manufacturers and sellers of smokeless products for injuries to health allegedly caused by use of smokeless products. We may be subject to similar claims in the future relating to our vaporizer products. We may also be named as a defendant in product liability litigation against one of our suppliers by association, including in class action lawsuits. In addition, we may see increasing litigation over our vaporizer products or the regulation of our products as the regulatory regimes surrounding these products develop. In February 2015, for example, the Center for Environmental Health, a public interest group in California, filed an action against vaporizer marketers alleging a violation of California's Proposition 65 ("Prop 65"). Prop 65 requires the State of California to identify chemicals that could cause cancer, birth defects, or reproductive harm, and businesses selling products in California are then required to warn consumers of any possible exposure to the chemicals on the list. The basis for the action brought by the Center for Environmental Health is the reproductive harm associated with nicotine. Although we are not aware of an instance in which we have sold nicotine-containing electronic cigarette products that did not carry the appropriate Prop 65 warning, the Center for Environmental Health has asserted in its complaint that even electronic cigarette products that do not contain nicotine, but could potentially be used with nicotine-containing products (such as open-system vaporizers or blank cartridges), should also carry a Prop 65 warning. As a result of other similar suits that may be filed in the future, we may face substantial costs due to increased product liability litigation relating to new regulations or other potential defects associated with our vaporizer and other consumption products, including litigation arising out of faulty devices or improper usage, which could have a material adverse effect on our business, results of operations and financial condition.

There can be no assurances that we will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

The scientific community has not yet extensively studied the long-term health effects of the use of vaporizers, electronic cigarettes or e-liquids products.

Vaporizers, electronic cigarettes and related products were recently developed and therefore the scientific community has not had a sufficient period of time to study the long-term health effects of their use. Currently, there is no way of knowing whether these products are safe for their intended use. If the scientific community were to determine conclusively that use of any or all of these products poses long-term health risks, market demand for these products and their use could materially decline. Such a determination could also lead to litigation and significant regulation. Loss of demand for our product, product liability claims and increased regulation stemming from unfavorable scientific studies on these products could have a material adverse effect on our business, results of operations and financial condition.

Reliance on information technology means a significant disruption could affect our communications and operations.

We increasingly rely on information technology systems for our internal communications, controls, reporting and relations with customers, vendors and suppliers, and information technology is becoming a significantly important tool for our sales staff. Our marketing and distribution strategy is dependent upon our ability to closely monitor consumer and market trends on a highly-specified level, for which we are reliant on our sophisticated data tracking systems, which are susceptible to disruption or failure. In addition, our reliance on information technology exposes us to cyber-security risks, which could have a material adverse effect on our ability to compete. Security and privacy breaches may expose us to liability and cause us to lose customers, or may disrupt our relationships and ongoing transactions with other entities with whom we contract throughout our supply chain. The failure of our information systems to function as intended, or the penetration by outside parties intent on disrupting business processes, could result in significant costs, loss of revenue, assets or personal or other sensitive data and reputational harm.

Internet security poses a risk to our e-commerce sales.

At present we generate a portion of our sales through e-commerce sales on our own websites and fulfillment activities through third-party websites. We manage our websites and e-commerce platform internally and, as a result, any compromise of our security or misappropriation of proprietary information could have a material adverse effect on our business, results of operations and financial condition. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure Internet transmission of confidential information, such as credit and other proprietary information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the technology used by us to protect client transaction data. Anyone who is able to circumvent our security measures could misappropriate proprietary information or cause material interruptions in our operations. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. To the extent that our activities or the activities of others involve the storage and transmission of proprietary information, security breaches could damage our reputation and expose us to a risk of loss and/or litigation. Our security measures may not prevent security breaches. Our failure to prevent these security breaches may result in consumer distrust and may adversely affect our business, results of operations and financial condition.

Security and privacy breaches may expose us to liability and cause us to lose customers.

Federal, provincial and state laws require us to safeguard our customers’ financial information, including credit information. Although we have established security procedures to protect against identity theft and the theft of financial information of our customers, distributors or consumers, our security and testing measures may not prevent security breaches and breaches of privacy may occur, which would harm our business. Typically, we rely on encryption and authentication technology licensed from third parties to enhance transmission security of confidential information in relation to financial and other sensitive information that we have on file. Advances in computer capabilities, new discoveries in the field of cryptography, inadequate facility security or other developments may result in a compromise or breach of the technology used by us to protect customer data. Any compromise of our security could harm our reputation or financial condition and therefore, our business. In addition, a party who is able to circumvent our security measures or exploit inadequacies in our security measures, could, among other effects, misappropriate proprietary information, cause interruptions in our operations or expose customers and other entities with which we interact to computer viruses or other disruptions. Actual or perceived vulnerabilities may lead to claims against us. To the extent the measures we have taken prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our reputation.

If the methodologies of Internet search engines are modified, traffic to our websites and corresponding consumer origination volumes could decline.

We depend in part on various Internet search engines, including Google®, Bing®, and Yahoo!®, to direct a significant amount of traffic to our websites. Our ability to maintain the number of visitors directed to our websites by search engines through which we distribute our content is not entirely within our control. Our competitors' search engine optimization ("SEO") efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies, which could adversely affect the placement of our search result page ranking. If search engine companies modify their search algorithms in ways that are detrimental to our consumer growth or in ways that make it harder for our customers to access or use our websites, or if our competitors' SEO efforts are more successful than ours, our consumer engagement and number of consumers could decline. Any reduction in the number of consumers directed to our websites could negatively affect our ability to earn revenue. If traffic on our websites declines, we may need to employ more costly resources to replace lost traffic, and such increased expense could adversely affect our business, results of operations and financial condition.

We are a holding company and depend upon our subsidiaries for our cash flow.

We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our tangible assets. Consequently, our cash flow and our ability to meet our obligations or to make other distributions in the future will depend upon the cash flow of our subsidiaries and our subsidiaries' payment of funds to us in the form of distributions, dividends, tax sharing payments or otherwise.

The ability of our subsidiaries to make any payments to us will depend on their earnings and cash flow, the terms of their current and future indebtedness, tax considerations and legal and contractual restrictions on their ability to make distributions.

Our subsidiaries are separate and distinct legal entities. Any right that we have to receive any assets of or distributions from any of our subsidiaries upon the bankruptcy, dissolution, liquidation or reorganization, or to realize proceeds from the sale of their assets, will be junior to the claims of that subsidiary's creditors, including trade creditors and holders of debt that the subsidiary issued.

Changes in our credit profile may affect our relationship with our suppliers, which could have a material adverse effect on our liquidity.

Changes in our credit profile may affect the way our suppliers view our ability to make payments and may induce them to shorten the payment terms of their invoices. Given the large dollar amounts and volume of our purchases from suppliers, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers and, consequently, may have a material adverse effect on us.

Our intellectual property may be infringed.

We currently rely on trademark and other intellectual property rights to establish and protect the brand names and logos we own or license on the products we distribute. Third parties have in the past infringed, and may in the future infringe, on these trademarks and our other intellectual property rights. Our ability to maintain and further build brand recognition is dependent on the continued use of these trademarks, service marks and other proprietary intellectual property, including the names and logos we own or license. Despite our attempts to ensure these intellectual property rights are protected, third parties may take actions that could materially and adversely affect our rights or the value of this intellectual property. Any litigation concerning our intellectual property rights or the intellectual property rights of our suppliers, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources. Expenses related to protecting our intellectual property rights or the intellectual property rights of our suppliers, the loss or compromise of any of these rights or the loss of revenues as a result of infringement could have a material adverse effect on our business, results of operations and financial condition, and may prevent the brands we own or license, or are owned or licensed by our suppliers, from growing or maintaining market share. There can be no assurance that any trademarks or common marks that we own or license, or are owned or licensed by our suppliers, will not be challenged in the future, invalidated or circumvented or that the rights granted thereunder or under licensing agreements will provide us or our suppliers competitive advantages. We are dependent on the validity, integrity and intellectual property of our suppliers and their efforts to appropriately register, maintain and enforce intellectual property in all jurisdictions in which their products are sold.

We devote significant resources to the registration and protection of our trademarks and to anti-counterfeiting efforts. Despite these efforts, we regularly discover products that infringe on our proprietary rights or that otherwise seek to mimic or leverage our intellectual property or the intellectual property of our suppliers. Counterfeiting and other infringing activities typically increase as brand recognition increases, especially in markets outside the United States and Canada. Counterfeiting and other infringement of our intellectual property could divert away sales, and association of our brands with inferior counterfeit reproductions or third party labels could adversely affect the integrity and reputation of our brands.

Although we currently hold a number of patents on our products, we generally rely on patents on the products of our suppliers as well as their efforts in successfully defending third-party challenges to such products. Our ability to maintain and enforce our patent rights, and the ability of our suppliers, licensors, collaborators and manufacturers to maintain and enforce their patent rights, against third-party challenges to their validity, scope or enforceability plays an important role in determining our future. There can be no assurances that we will ever successfully file or receive any patents in the future, and changes in either the patent laws or in interpretations of patent laws in the United States or other countries may diminish the value of the intellectual property rights of the products we distribute, license or own. Accordingly, we cannot predict with any certainty the range of claims that may be allowed or enforced concerning the products that we sell.

In addition, there can be no assurance that standard intellectual property confidentiality and assignment agreement with employees, consultants and other advisors will not be breached, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known to or independently developed by competitors. Furthermore, there can be no assurance that our efforts to protect our intellectual property will prevent others from unlawfully using our trademarks, trade secrets, copyrights and other intellectual property. Our success depends in part, on our continued ability to maintain our intellectual property and those of our suppliers, and to protect our trade secrets. An inability to continue to preserve and protect our intellectual property would likely have a material adverse effect on our business, results of operations and financial condition.

We are subject to the risks of exchange rate fluctuations.

Currency movements and suppliers’ price increases relating to currency exchange rates are significant factors affecting our cost of sales. Many of our products are purchased from suppliers located in foreign countries and we make payments for our products in numerous currencies. Thus, we bear certain foreign exchange rate risk for certain of our inventory purchases. In addition, we recently expanded our footprint in Canada, and as part of our strategy, we may undertake further international expansion. As a result, in the future, we may be more sensitive to the risks of exchange rate fluctuations, which may have a material adverse effect on our business, results of operations and financial condition.

Adverse U.S., Canadian and global economic conditions could negatively impact our business, prospects, results of operations, financial condition or cash flows.

Our business and operations are sensitive to global economic conditions. These conditions include interest rates, energy costs, inflation, international trade relationships, recession, fluctuations in debt and equity capital markets and the general condition of the U.S., Canadian and world economy. A material decline in the economic conditions affecting consumers, which cause a reduction in disposable income for the average consumer, may change consumption patterns, and may result in a reduction in spending on vaporization products and consumption accessories or a switch to cheaper products or products obtained through illicit channels. Vaporizer, electronic cigarette and e-liquid products are relatively new to market and may be regarded by consumers as a novelty item and expendable. As such, demand for our vaporizer products may be particularly sensitive to economic conditions such as inflation, recession, high energy costs, unemployment, changes in interest rates and money supply, changes in the political environment and other factors beyond our control, any combination of which could result in a material adverse effect on our business, results of operations and financial condition.

We are required to comply with laws and regulations in other countries and are exposed to business risks associated with our international operations.

For the years ended December 31, 2018 and 2017, we derived 10.4% and 9.4%, respectively, of our net sales from outside the United States, primarily in Canada. We intend to increase our Canadian and other international sales, both as to the dollar amount and as a percentage of our net sales and operations in the future. As a result, we are subject to numerous evolving and complex laws and regulations which apply, among other things, to financial reporting standards, corporate governance, data privacy, tax, trade regulations, export controls, competitive practices, labor, health and safety laws, and regulations in each jurisdiction in which we operate. We are also required to obtain permits and other authorizations or licenses from governmental authorities for certain of our operations and we or our suppliers' must protect our intellectual property worldwide. In the jurisdictions in which we operate, we need to comply with various standards and practices of different regulatory, tax, judicial and administrative bodies.

There are a number of risks associated with international business operations, including political instability (e.g., the threat of war, terrorist attacks or civil unrest), inconsistent regulations across jurisdictions, unanticipated changes in the regulatory environment, and import and export restrictions. Any of these events may affect our employees, reputation, business or financial results as well as our ability to meet our objectives, including the following international business risks:

- negative economic developments in economies around the world and the instability of governments, or the downgrades in the debt ratings of certain major economies;
- social and political instability;
- complex regulations governing certain of our products;
- potential terrorist attacks;
- adverse changes in governmental policies, especially those affecting trade, tariffs and investment;
- foreign currency exchange, particularly with respect to the Canadian Dollar, Euro, British Pound Sterling and Australian dollar; and
- threats that our operations or property could be subject to nationalization and expropriation.

We may not be in full compliance at all times with the laws and regulations to which we are subject. Likewise, we may not have obtained or may not be able to obtain the permits and other authorizations or licenses that we need. If we violate or fail to comply with laws, regulations, permits, labor, health and safety regulations or other authorizations or licenses, we could be fined or otherwise sanctioned by regulators. In such a case, or if any of these international business risks were to materialize, our business, results of operations and financial condition could be adversely affected.

New tariffs and the evolving trade policy dispute between the United States and China may adversely affect our business.

On August 14, 2017, President Trump instructed the U.S. Trade Representative ("USTR") to determine under Section 301 of the U.S. Trade Act of 1974 (the "Trade Act") whether to investigate China's law, policies, practices or actions that may be unreasonable or discriminatory and that may be harming American intellectual property rights, innovation or technology development. On March 22, 2018, based upon the results of its investigation, the USTR published a report finding that the acts, policies and practices of the Chinese government are unreasonable or discriminatory and burden or restrict U.S. commerce.

On March 8, 2018, President Trump imposed significant tariffs on steel and aluminum imports from a number of countries, including China. Subsequently, the USTR announced an initial proposed list of 1,300 goods imported from China that could be subject to additional tariffs and initiated a dispute with the World Trade Organization against China for alleged unfair trade practices.

On June 15, 2018, the USTR announced a list of products subject to additional tariffs. The list focused on products from industrial sectors that contribute to or benefit from the "Made in China 2025" industrial policy. The list of products consists of two sets of tariff lines. The first set contains 818 tariff lines for which Customs and Border Protection began collecting the additional duties on July 6, 2018. This list includes some of the products we distribute. The second set contains 284 proposed tariff lines that remain subject to further review. On July 10, 2018, the USTR announced that, as a result of China's retaliation and failure to change its practices, President Trump has ordered the USTR to begin the process of imposing tariffs of 10 percent on an additional $200 billion of Chinese imports, and on September 17, 2018, President Trump announced that such tariffs would go into effect on September 24, 2018 and would increase to 25 percent on January 1, 2019. However, in early December 2018, President Trump agreed to leave the tariffs at the 10 percent rate while the United States and China entered into negotiations regarding various trade-related matters.

These new tariffs and the evolving trade policy dispute between the United States and China may have a significant impact on the industries in which we participate. A "trade war" between the United States and China or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the United States economy or certain sectors thereof and, thus, to adversely impact our businesses and results of operations.

Our failure to comply with certain environmental, health and safety regulations could adversely affect our business.

The storage, distribution and transportation of some of the products that we sell are subject to a variety of federal, state, provincial and local environmental regulations. We are also subject to operational, health and safety laws and regulations. Our failure to comply with these laws and regulations could cause a disruption in our business, an inability to maintain our warehousing resources, additional and potentially significant remedial costs and damages, fines, sanctions or other legal consequences that could have a material adverse effect on our business, results of operations and financial condition. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to our operations or give rise to material liabilities, which could have a material adverse effect on our business, financial condition and results of operations.

Our business depends substantially on the continued efforts of our executive officers and key employees, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued efforts of our executive officers, especially our Chief Executive Officer, Aaron LoCascio, and our Chief Strategy Officer, Adam Schoenfeld, as well as our key employees.

If one or more of our executive officers or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner, or at all. Our business may be severely disrupted, our financial conditions and results of operations may be materially adversely affected and we may incur additional expenses to recruit, train and retain personnel. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how, key professionals and staff members.

In the future, we may pursue selective acquisitions to complement our organic growth, which may not be successful and may divert financial and management resources.

If we identify appropriate opportunities, we may acquire or invest in technologies, businesses or assets that are strategically important to our business or form alliances with key participants in the vaporization products and consumption accessories industry to further expand our business. If we decide to pursue a strategy of selective acquisitions, we may not be successful in identifying suitable acquisition opportunities or completing such transactions. Our competitors may be more effective in executing and closing acquisitions in competitive auctions than us. Our ability to enter into and complete acquisitions may be restricted by, or subject to, various approvals under U.S., Canadian or other applicable law or may not otherwise be possible, may result in a possible dilutive issuance of our securities, or may require us to seek additional financing. We also may experience difficulties integrating acquired operations, technology, and personnel into our existing business and operations. Completed acquisitions may also expose us to potential risks, including risks associated with unforeseen or hidden liabilities, impact to our corporate culture, the diversion of resources from our existing business, and the potential loss of, or harm to, relationships with our suppliers, business relationships or employees as a result of our integration of new businesses. In addition, following completion of an acquisition, our management and resources may be diverted from their core business activities due to the integration process, which diversion may harm the effective management of our business. Furthermore, it may not be possible to achieve the expected synergies or the actual cost of delivering such benefits may exceed the anticipated cost. Any of these factors may have an adverse effect on our business, results of operations and financial condition.

Our operations are subject to natural disasters, adverse weather conditions, operating hazards, environmental incidents and labor disputes.

We may experience earthquakes, floods, typhoons, power outages, labor and trade disputes or similar events beyond our control that would affect our warehousing and distribution operations. The occurrences of such events could result in shutdowns or periods of reduced operations, which could significantly disrupt our business operations, cause us to incur additional costs and affect our ability to deliver our products to our customers as scheduled, which may adversely affect our business, results of operations and financial condition. Moreover, such events could result in severe damage to property, personal injuries, fatalities, regulatory enforcement proceedings or in us being named as a defendant in lawsuits asserting claims for large amounts of damages, which in turn could lead to significant liabilities.

Risks Related to Our Organizational Structure

Our principal asset after the completion of this offering will be our interest in Greenlane Holdings, LLC, and, accordingly, we will depend on distributions from Greenlane Holdings, LLC to pay our taxes and expenses, including payments under the Tax Receivable Agreement. Greenlane Holdings, LLC's ability to make such distributions may be subject to various limitations and restrictions.

Upon the completion of this offering, we will be a holding company and will have no material assets other than our ownership of Common Units of Greenlane Holdings, LLC. As such, we will have no independent means of generating revenue or cash flow. We have determined that Greenlane Holdings, LLC will be a variable interest entity, or VIE, and that we will be the primary beneficiary of Greenlane Holdings, LLC. Accordingly, pursuant to the VIE accounting model, we will consolidate Greenlane Holdings, LLC in our consolidated financial statements. In the event of a change in accounting guidance or amendments to the Greenlane Operating Agreement resulting in us no longer having a controlling interest in Greenlane Holdings, LLC, we may not be able to consolidate its results of operations with our own, which would have a material adverse effect on our results of operations. Moreover, our ability to pay our taxes and operating expenses or declare and pay dividends in the future, if any, will be dependent upon the financial results and cash flows of Greenlane Holdings, LLC and its subsidiaries and distributions we receive from Greenlane Holdings, LLC. There can be no assurance that Greenlane Holdings, LLC and its subsidiaries will generate sufficient cash flow to distribute funds to us or that applicable state law and contractual restrictions, including negative covenants in our debt instruments, will permit such distributions.

Greenlane Holdings, LLC will continue to be treated as a partnership for U.S. federal income tax purposes and, as such, will not be subject to any entity-level U.S. federal income tax. Instead, taxable income will be allocated to holders of Common Units, including us. Accordingly, we will incur income taxes on our allocable share of any net taxable income of Greenlane Holdings, LLC. Under the terms of the Greenlane Operating Agreement, Greenlane Holdings, LLC will be obligated to make tax distributions to holders of Common Units, including us. In addition to tax expenses, we will also incur expenses related to our operations, including payments under the Tax Receivable Agreement, which we expect could be significant. See "Certain Relationships and Related Party Transactions — The Transactions — Tax Receivable Agreement." We intend, as its manager, to cause Greenlane Holdings, LLC to make cash distributions to the owners of Common Units in an amount sufficient to (i) fund their tax obligations in respect of taxable income allocated to them and (ii) cover our operating expenses, including payments under the Tax Receivable Agreement. However, Greenlane Holdings, LLC's ability to make such distributions may be subject to various limitations and restrictions, such as restrictions on distributions that would either violate any contract or agreement to which Greenlane Holdings, LLC is then a party, including debt agreements, or any applicable law, or that would have the effect of rendering Greenlane Holdings, LLC insolvent. If we do not have sufficient funds to pay tax or other liabilities or to fund our operations, we may have to borrow funds, which could materially adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. To the extent that we are unable to make payments under the Tax Receivable Agreement for any reason, such payments generally will be deferred and will accrue interest until paid; provided, however, that nonpayment for a specified period may constitute a material breach of a material obligation under the Tax Receivable Agreement and therefore accelerate payments due under the Tax Receivable Agreement. See "Certain Relationships and Related Party Transactions — The Transactions — Tax Receivable Agreement" and "Certain Relationships and Related Party Transactions — The Transactions — Greenlane Operating Agreement — Distributions." In addition, if Greenlane Holdings, LLC does not have sufficient funds to make distributions, our ability to declare and pay cash dividends will also be restricted or impaired. See "— Risks Related to This Offering and Ownership of Our Class A Common Stock" and "Dividend Policy."

The Tax Receivable Agreement with the Members requires us to make cash payments to them in respect of certain tax benefits to which we may become entitled, and we expect that the payments we will be required to make will be substantial.

Under the Tax Receivable Agreement we entered into with Greenlane Holdings, LLC and the Members, we are required to make cash payments to the Members equal to 85% of the tax benefits, if any, that we actually realize, or in certain circumstances are deemed to realize, as a result of (i) the increases in the tax basis of assets of Greenlane Holdings, LLC resulting from any redemptions or exchanges of Common Units from the Members as described under "Certain Relationships and Related Party Transactions — The Transactions — Greenlane Operating Agreement — Common Unit Redemption Right" and (ii) certain other tax benefits related to our making payments under the Tax Receivable Agreement. Although the actual timing and amount of any payments that we make to the Members under the Tax Receivable Agreement will vary, we expect those payments will be significant. Any payments made by us to the Members under the Tax Receivable Agreement may generally reduce the amount of overall cash flow that might have otherwise been available to us. Furthermore, our future obligation to make payments under the Tax Receivable Agreement could make us a less attractive target for an acquisition, particularly in the case of an acquirer that cannot use some or all of the tax benefits that are the subject of the Tax Receivable Agreement. For more information, see "Certain Relationships and Related Party Transactions — The Transactions — Tax Receivable Agreement." Payments under the Tax Receivable Agreement are not conditioned on any Member's continued ownership of Common Units or our Class A common stock after this offering.

The actual amount and timing of any payments under the Tax Receivable Agreement will vary depending upon a number of factors, including the timing of redemptions or exchanges by the holders of Common Units, the amount of gain recognized by such holders of Common Units, the amount and timing of the taxable income we generate in the future, and the federal tax rates then applicable.

Two of our senior executives, Aaron LoCascio and Adam Schoenfeld, have control over all stockholder decisions because collectively they control a substantial majority of the combined voting power of our common stock. This will limit or preclude your ability to influence corporate matters, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval.

Our Chief Executive Officer, Aaron LoCascio, and our Chief Strategy Officer, Adam Schoenfeld, are senior executives and board members, and they and their affiliates will beneficially own 100% of our Class C common stock and thereby collectively control approximately 83.5% of the combined voting power of our common stock (or 82.4% if the underwriters exercise their option to purchase additional shares in full from the selling stockholders) after the completion of this offering and the application of the net proceeds from this offering.

As a result, Messrs. LoCascio and Schoenfeld will have the ability to substantially control us, including the ability to control any action requiring the general approval of our stockholders, including the election of our board of directors, the adoption of amendments to our amended and restated certificate of incorporation and bylaws and the approval of any merger or sale of substantially all of our assets. This concentration of ownership and voting power may also delay, defer or even prevent an acquisition by a third party or other change of control of us and may make some transactions more difficult or impossible without their support, even if such events are in the best interests of minority stockholders. This concentration of voting power with Messrs. LoCascio and Schoenfeld may have a negative impact on the price of our Class A common stock.

As our Chief Executive Officer, Mr. LoCascio has control over our day-to-day management and the implementation of major strategic investments of our company, subject to authorization and oversight by our board of directors. As members of our board of directors, Messrs. LoCascio and Schoenfeld owe fiduciary duties to our company, including those of care and loyalty, and must act in good faith and with a view to the interests of the corporation. However, Delaware law provides that a director or officer shall not be personally liable to a corporation for a breach of fiduciary duty except for an act or omission constituting a breach and which involves intentional misconduct, fraud or a knowing violation of law. In addition, a director or officer is entitled to a presumption that he or she acted in good faith, on an informed basis and with a view to the interests of the corporation, and is not individually liable unless that presumption is found by a trier of fact to have been rebutted. As a stockholder, even a controlling stockholder, each of Messrs. LoCascio and Schoenfeld is entitled to vote his shares, and shares over which he has voting control, in his own interests, which may not always be in the interests of our stockholders generally. Because Messrs. LoCascio and Schoenfeld hold their economic interest in our business through Greenlane Holdings, LLC, rather than through the public company, they may have conflicting interests with holders of shares of our Class A common stock. For example, Messrs. LoCascio and Schoenfeld may have different tax positions from us, which could influence their decisions regarding whether and when we should dispose of assets or incur new or refinance existing indebtedness, especially in light of the existence of the Tax Receivable Agreement, and whether and when we should undergo certain changes of control within the meaning of the Tax Receivable Agreement or terminate the Tax Receivable Agreement. In addition, the structuring of future transactions may take into consideration these tax or other considerations even where no similar benefit would accrue to us. See “Certain Relationships and Related Party Transactions — The Transactions — Tax Receivable Agreement.” In addition, the significant ownership of Messrs. LoCascio and Schoenfeld in us and their resulting ability to effectively control us may discourage someone from making a significant equity investment in us, or could discourage transactions involving a change in control, including transactions in which you as a holder of shares of our Class A common stock might otherwise receive a premium for your shares over the then-current market price.

Under certain circumstances, redemptions of Common Units by Members will result in dilution to the holders of our Class A common stock.

Redemptions of Common Units by Members in accordance with the terms of the Greenlane Operating Agreement will result in a corresponding increase in our membership interest in Greenlane Holdings, LLC, an increase in the number of shares of Class A common stock outstanding and a decrease in the number of shares of Class B common stock or Class C common stock outstanding. In the event that Common Units are exchanged at a time when Greenlane Holdings, LLC has made cash distributions to Members, including our company, and we have accumulated such distributions and neither reinvested them in Greenlane Holdings, LLC in exchange for additional Common Units nor distributed them as dividends to the holders of our Class A common stock, the holders of our Class A common stock would experience dilution with respect to such accumulated distributions.

Our organizational structure, including the Tax Receivable Agreement, confers certain benefits upon the Members that will not benefit Class A common stockholders to the same extent as it will benefit the Members.

Our organizational structure, including the Tax Receivable Agreement, confers certain benefits upon the Members that will not benefit the holders of our Class A common stock to the same extent as it will benefit the Members. The Tax Receivable Agreement provides for the payment by us to the Members of 85% of the amount of tax benefits, if any, that we actually realize, or in some circumstances are deemed to realize, as a result of (1) the increases in the tax basis of assets of Greenlane Holdings, LLC resulting from any redemptions or exchanges of Common Units from the Members as described under “Certain Relationships and Related Party Transactions — The Transactions — Greenlane Operating Agreement — Common Unit Redemption Right” and (2) certain other tax benefits related to our making payments under the Tax Receivable Agreement. See “Certain Relationships and Related Party Transactions — The Transactions — Tax Receivable Agreement.” Although we will retain 15% of the amount of such tax benefits, this and other aspects of our organizational structure may adversely impact the future trading market for the Class A common stock.

In certain cases, payments under the Tax Receivable Agreement to the Members may be accelerated or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the Tax Receivable Agreement.

The Tax Receivable Agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control or if, at any time, we elect an early termination of the Tax Receivable Agreement, then our obligations, or our successor’s obligations, under the Tax Receivable Agreement to make payments thereunder would be based on certain assumptions, including an assumption that we would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the Tax Receivable Agreement.

As a result of the foregoing, (i) we could be required to make payments under the Tax Receivable Agreement that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the Tax Receivable Agreement, and (ii) if we elect to terminate the Tax Receivable Agreement early, we would be required to make an immediate cash payment equal to the present value of the anticipated future tax benefits that are the subject of the Tax Receivable Agreement, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits. In these situations, our obligations under the Tax Receivable Agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to fund or finance our obligations under the Tax Receivable Agreement.

We will not be reimbursed for any payments made to the Members under the Tax Receivable Agreement in the event that any tax benefits are disallowed.

Payments under the Tax Receivable Agreement will be based on the tax reporting positions that we determine, and the IRS or another tax authority may challenge all or part of the tax basis increases, as well as other related tax positions we take, and a court could sustain such challenge. If the outcome of any such challenge would reasonably be expected to materially affect a recipient's payments under the Tax Receivable Agreement, then we will not be permitted to settle or fail to contest such challenge without the consent (not to be unreasonably withheld or delayed) of each Member that directly or indirectly owns at least 10% of the outstanding Common Units. We will not be reimbursed for any cash payments previously made to the Members under the Tax Receivable Agreement in the event that any tax benefits initially claimed by us and for which payment has been made to a Member are subsequently challenged by a taxing authority and are ultimately disallowed. Instead, any excess cash payments made by us to a Member will be netted against any future cash payments that we might otherwise be required to make to such Member under the terms of the Tax Receivable Agreement. However, we might not determine that we have effectively made an excess cash payment to a Member for a number of years following the initial time of such payment and, if any of our tax reporting positions are challenged by a taxing authority, we will not be permitted to reduce any future cash payments under the Tax Receivable Agreement until any such challenge is finally settled or determined. As a result, payments could be made under the Tax Receivable Agreement in excess of the tax savings that we realize in respect of the tax attributes with respect to a Member that are the subject of the Tax Receivable Agreement.

Fluctuations in our tax obligations and effective tax rate and realization of our deferred tax assets may result in volatility of our operating results.

We are subject to taxes by the U.S. federal, state, local and foreign tax authorities, and our tax liabilities will be affected by the allocation of expenses to differing jurisdictions. We record tax expense based on our estimates of future earnings, which may include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets. At any one time, many tax years may be subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these matters. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation;
- changes in tax laws, regulations or interpretations thereof; or
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

In addition, our effective tax rate in a given financial statement period may be materially impacted by a variety of factors including but not limited to changes in the mix and level of earnings, varying tax rates in the different jurisdictions in which we operate, fluctuations in valuation allowances, deductibility of certain items, or by changes to existing accounting rules or regulations. Further, tax legislation may be enacted in the future which could negatively impact our current or future tax structure and effective tax rates. We may be subject to audits of our income, sales, and other transaction taxes by U.S. federal, state, local, and foreign taxing authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

If we were deemed to be an investment company under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), as a result of our ownership of Greenlane Holdings, LLC, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an "investment company" for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an "investment company," as such term is defined in either of those sections of the 1940 Act.

As the sole manager of Greenlane Holdings, LLC, we will control and operate Greenlane Holdings, LLC. On that basis, we believe that our interest in Greenlane Holdings, LLC is not an "investment security" as that term is used in the 1940 Act. However, if we were to cease participation in the management of Greenlane Holdings, LLC, our interest in Greenlane Holdings, LLC could be deemed an "investment security" for purposes of the 1940 Act.

We and Greenlane Holdings, LLC intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

We will be a controlled company within the meaning of the Nasdaq Marketplace Rules, and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements that provide protection to stockholders of other companies. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Upon completion of this offering, the Founder Members will control more than 50% of our combined voting power. As a result, we will be considered a "controlled company" within the meaning of the Nasdaq Marketplace Rules.

As a controlled company, we will be exempt from certain Nasdaq Marketplace Rules, including those that would otherwise require our board of directors to have a majority of independent directors and require that we either establish a Compensation and Nominating and Corporate Governance Committees, each comprised entirely of independent directors, or otherwise ensure that the compensation of our executive officers and nominees for directors are determined or recommended to the board of directors by the independent members of the board of directors. While we intend to have a majority of independent directors, our compensation and nominating and corporate governance committees may not consist entirely of independent directors. Accordingly, holders of our Class A common stock will not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq Marketplace Rules.

Our failure to meet the continued listing requirements of Nasdaq could result in a de-listing of our common stock.

If, after listing, we fail to satisfy the continued listing requirements of Nasdaq, such as the corporate governance requirements or the minimum closing bid price requirement, Nasdaq may take steps to de-list our Class A common stock. Such a de-listing would likely have a negative effect on the price of our Class A common stock and would impair your ability to sell or purchase our Class A common stock when you wish to do so. In the event of a de-listing, we would take actions to restore our compliance with Nasdaq Marketplace Rules, but our Class A common stock may not be listed again, stabilize the market price or improve the liquidity of our Class A common stock, prevent our Class A common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with the Nasdaq Marketplace Rules.

Risks Related to this Offering and Ownership of Our Class A Common Stock

The initial public offering price of our Class A common stock may not be indicative of the market price of our Class A common stock after this offering. In addition, an active trading market for our Class A common stock may not develop or be maintained, and our stock price may be volatile.

Prior to this offering, our Class A common stock was not traded on any market. While our Class A common stock has been approved for listing on Nasdaq, an active trading market for our Class A common stock may not develop or be maintained. Active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Class A common stock could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Class A common stock, you could lose a substantial part or all of your investment in our Class A common stock. The initial public offering price of our Class A common stock has been negotiated between us and representatives of the underwriters, based on numerous factors which we discuss in "Underwriting," and may not be indicative of the market price of our Class A common stock after this offering. Consequently, you may not be able to sell shares of our Class A common stock at prices equal to or greater than the price paid by you in this offering. The following factors could affect our stock price:

- our operating and financial performance;
- quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;
- strategic actions by our competitors or our suppliers;
- product recalls or product liability claims;
- changes in revenue or earnings estimates, or changes in recommendations or withdrawal of research coverage, by equity research analysts;
- liquidity and activity in the market for our Class A common stock;
- speculation in the press or investment community;
- sales of our Class A common stock by us or other stockholders, or the perception that such sales may occur;
- changes in accounting principles;
- additions or departures of key management personnel;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in our industry or target markets;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- actions by our stockholders; and
- domestic and international economic, legal and regulatory factors.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our Class A common stock. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

The reduced disclosure requirements applicable to "emerging growth companies" may make our Class A common stock less attractive to investors, potentially decreasing our stock price.

For as long as we continue to be an "emerging growth company", we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." Investors may find our Class A common stock less attractive because we may rely on these exemptions, which include but are not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404"), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, Section 107 of the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") enacted on April 5, 2012 provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We have elected not to use the extended transition period for complying with any new or revised financial accounting standards. Therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

If investors find our Class A common stock less attractive as a result of exemptions and reduced disclosure requirements, there may be a less active trading market for our Class A common stock and our stock price may be more volatile or decrease.

The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business, particularly after we are no longer an "emerging growth company."

As a public company, we will be required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements is time-consuming and expensive and could have a negative effect on our business, results of operations and financial condition. As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the requirements of the Sarbanes-Oxley Act ("SOX"). The cost of complying with these requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. SOX requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures, we must commit significant resources, will be required to hire additional staff and need to continue to provide effective management oversight. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth also will require us to commit additional management, operational and financial resources to identify new professionals to join our company and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In connection with becoming a public company, we recently obtained directors' and officers' insurance coverage, which will increase our annual insurance costs. In the future, it may be more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members to our board of directors in the future, particularly to serve on our audit committee, and qualified executive officers.

As an "emerging growth company" as defined in the JOBS Act, we may take advantage of certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of SOX (and rules and regulations of the SEC thereunder, which we refer to as Section 404) and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We will remain an "emerging growth company" for up to five years, although we may cease to be an "emerging growth company" earlier under certain circumstances. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

New investors purchasing our Class A common stock will experience immediate and substantial dilution.

Our initial public offering price is substantially higher than the book value per share of our Class A common stock. If you purchase Class A common stock in this offering, you will incur immediate dilution of approximately $14.12 in net tangible book value per share of Class A common stock. In addition, the number of shares available for issuance under our 2019 Equity Incentive Plan will increase annually without further board of directors or stockholder approval. Investors will incur additional dilution upon the exercise of stock options and warrants. See "Dilution."

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

While our predecessor, Greenlane Holdings, LLC, as a pass-through entity for tax purposes, has historically made distributions to members for tax purposes, we do not anticipate paying cash dividends in the foreseeable future. The payment of dividends will depend on our earnings, capital requirements, financial condition, prospects and other factors our board of directors may deem relevant. If we do not pay dividends, our stock may be less valuable because a return on your investment will only occur if you sell our Class A common stock after our stock price appreciates.

Future sales of our Class A common stock in the public market, or the perception that such sales may occur, could reduce our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute your ownership in us.

Subject to certain limitations and exceptions, the Members of Greenlane Holdings, LLC may redeem their Common Units for shares of Class A common stock (on a one-for-one basis, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions) and then sell those shares of Class A common stock. Additionally, we may issue additional shares of Class A common stock or convertible securities in subsequent public offerings. After the completion of this offering, we will have 10,447,776 outstanding shares of Class A common stock, 5,925,400 outstanding shares of Class B common stock and 76,630,473 outstanding shares of Class C common stock. This number includes 1,650,000 shares of Class A common stock that the selling stockholders are selling in this offering if the underwriters' option to purchase additional shares is fully exercised, which may be resold immediately in the public market, as well as 3,547,776 shares of Class A common stock that will be issued upon the automatic share settlement of the Convertible Notes. Following the completion of this offering, the Founder Members will own shares of Class C common stock, which will be exchangeable for 26,317,323 shares of Class A common stock, in connection with a redemption of the corresponding Common Units, representing approximately 62.8% of our total outstanding common stock (or 25,543,491 shares of Class C common stock, which will be exchangeable for shares of Class A common stock in connection with a redemption of the corresponding Common Units, representing approximately 60.9% of our total outstanding common stock if the underwriters' option to purchase additional shares is exercised in full). In addition, following the completion of this offering, the Non-Founder Members will own 6,051,568 shares of Class B common stock (including 435,968 shares subject to vesting), which will be exchangeable for 6,051,568 shares of Class A common stock in connection with a redemption of the corresponding Common Units, representing approximately 14.4% of our total outstanding Class A common stock (or 5,925,400 shares of Class B common stock, which will be exchangeable for 5,925,400 shares of Class A common stock, in connection with a redemption of the corresponding Common Units, representing approximately 14.1% of our total outstanding Class A common stock if the underwriters' option to purchase additional shares from the selling stockholders is exercised in full). All such shares are restricted from immediate resale under the federal securities laws and are subject to the lock-up agreements between such parties and the underwriters described in "Underwriting," but may be sold into the market in the future. We will be party to a registration rights agreement between us and the Members, which will require us to effect the registration of their shares in certain circumstances no earlier than the expiration of the lock-up period contained in the Underwriting Agreement entered into in connection with this offering. See "Shares Eligible for Future Sale" and "Certain Relationships and Related Party Transactions — The Transactions — Registration Rights Agreement."

We cannot predict the size of future issuances of our Class A common stock or securities convertible into Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock will have on the market price of our Class A common stock. Sales of substantial amounts of our Class A common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices of our Class A common stock.

The underwriters of this offering may waive or release parties to the lock-up agreements entered into in connection with this offering, which could adversely affect the price of our Class A common stock.

Our executive officers and directors and our significant stockholders, including all of the Members and the holders of shares of Class A common stock issued upon the conversion of the Convertible Notes, have entered into lock-up agreements with respect to their Class A common stock, pursuant to which they are subject to certain resale restrictions for a period of 180 days following the effective date of the registration statement of which this prospectus forms a part, subject to certain exceptions. The underwriters at any time and without notice, may release all or any portion of the Class A common stock subject to the foregoing lock-up agreements. If the restrictions under the lock-up agreement are waived, then Class A common stock will be available for sale into the public markets, which could cause the market price of our Class A common stock to decline and impair our ability to raise capital.

If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our stock will depend in part on the research and reports that securities or industry analysts publish about us or our industry. We currently do not, and in the future may not, have research coverage by securities analysts. If no securities analysts commence coverage of our company, the trading price for our stock could be negatively impacted. In the event we obtain securities analyst coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price could decline as a result. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

The terms and covenants relating to our existing credit facility could adversely impact our financial performance and liquidity.

Our existing credit facility contains covenants requiring us to, among other things, provide financial and other information reporting and to provide notice upon the occurrence of certain events affecting our company or our business. These covenants also place restrictions on our ability to incur additional indebtedness, make investments and loans, and enter into certain transactions, including selling assets, engaging in mergers or acquisitions, or engaging in transactions with affiliates. If we fail to satisfy one or more of the covenants under our credit facility, we would be in default thereunder, and may be required to repay such debt with capital from other sources or otherwise not be able to draw down against our line of credit. Under such circumstances, due to the industry in which we operate, we may have difficulty in locating another commercial lender that would be willing to extend credit to our company, and other sources of capital may not be available to us on reasonable terms or at all.

Our internal controls over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.

As a public company, we will be required to evaluate our internal controls over financial reporting. Furthermore, at such time as we cease to be an “emerging growth company,” as more fully described in these Risk Factors, we shall also be required to comply with Section 404. At such time we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may issue an adverse opinion due to ineffective internal controls over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results of operations and cash flows.

We have broad discretion in the use of proceeds from this offering.

The net proceeds of this offering will be allocated to additions and improvements to our internal infrastructure, the implementation of various sales and marketing initiatives, and to general corporate purposes, including the potential acquisitions of complementary products, technologies and businesses. Within those categories, our board of directors and management will have broad discretion over the use and investment of the net proceeds of this offering, and accordingly investors in this offering will need to rely upon the judgment of our board of directors and our management with respect to the use of proceeds with only limited information concerning our specific intentions.

Anti-takeover provisions in our certificate of incorporation and amended and restated bylaws and Delaware law could discourage a takeover.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that might enable our management to resist a takeover. These provisions include:

- authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- advance notice requirements applicable to stockholders for matters to be brought before a meeting of stockholders and requirements as to the form and content of a stockholder's notice;
- restrictions on the transfer of our outstanding shares of Class B common stock and Class C common stock, which shares will represent 89.9% of the voting rights of our capital stock following this offering, or 88.8% of the voting rights if the underwriters exercise in full their option to purchase additional shares of Class A common stock;
- a supermajority stockholder vote requirement for amending certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws;
- the inability of our stockholders to act by written consent;
- a requirement that the authorized number of directors may be changed only by resolution of the board of directors;
- allowing all vacancies, including newly created directorships, to be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum, except as otherwise required by law;
- limiting the forum for certain litigation against us to Delaware; and
- limiting the persons that can call special meetings of our stockholders to our board of directors or the chairperson of our board of directors.

These provisions might discourage, delay or prevent a change in control of our company or a change in our board of directors or management. The existence of these provisions could adversely affect the voting power of holders of Class A common stock and limit the price that investors might be willing to pay in the future for shares of our Class A common stock. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder. See "Description of Capital Stock."

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our Class A common stock.

Our amended and restated certificate of incorporation authorizes us to issue one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock can be issued with voting, liquidation, dividend and other rights superior to the rights of our Class A common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our Class A common stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.

Our amended and restated certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware is the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation and our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, other than any action or proceeding that, under applicable law, may only be commenced or prosecuted in another forum, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or to our stockholders, (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law or our amended and restated certificate of incorporation or bylaws (iv) any action to interpret apply, enforce or determine the validity of our amended and restated certificate of incorporation or bylaws or (v) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.