



**KushCo Holdings
KSHB
Investment Notes**



Please read Disclaimer at bottom of these notes!

“The Company specializes in marketing and selling packaging products, vaporizers, hydrocarbon gases, solvents, accessories and branding solutions to customers operating in the regulated medical and recreational cannabis industries. The Company provides custom branding on packaging products, and its testing standards meet the requirements set by the Consumer Product Safety Commission. The Company’s packaging products primarily consists of bottles, bags, tubes and containers. The Company maintains relationships with a broad range of manufacturers and also has sophisticated in-house labeling and customization capabilities. The Company sells a wide selection of vaporizer cartridges with a variety of core materials and heating technologies, as well as a wide selection of batteries to match the cartridges. The Company provides ultrapure hydrocarbon gases, including isobutene, n-butane, propane, ethanol, pre-mixes, custom blends and other solvents, which are essential in the extraction process. The Company’s wholly-owned subsidiary, The Hybrid Creative, LLC, is a full-service creative agency that serves both cannabis and non-cannabis clients across the U.S., Canada and Europe.” Form 10-Q 5/31/19

The company has a Fiscal Year End of August

October 7, 2019 (\$1.69)

2-Minute Drill and Thesis:

KushCO Holdings Inc., markets and sells packaging products and solutions to customers operating in the regulated medical and recreational cannabis industries. The Company specializes in the wholesale distribution of packaging supplies and customized branding solutions for the cannabis industry. Its packaging business primarily consists of bottles, bags, tubes, and containers. It offers labeling and customization capabilities to its customers' packaging design processes. Its products are utilized by local urban farmers, green house growers, and medical and recreational cannabis dispensaries. It sells primarily into the business-to-business market, which includes legally operating medical and adult-use dispensaries, growers, and marijuana infused product producers in states with marijuana programs. It provides packaging

solutions in the form of a bag. It provides smaller sized containers composed of either polystyrene, silicone-lined polystyrene or glass.

Shares outstanding are 106.0M, and this includes all in the money options. Fully diluted shares are 134.3M. Hence, the market capitalization is \$179.1M, or using fully diluted all shares of \$226.97. The price to consensus projected revenue using shares outstanding, for F2019 is 1.21X, for F2020 is 0.78X, and for F2021 is 0.54X.

This is a speculative investment, as are most of our cannabis companies currently. We control 133,552 shares, with a ~0.50% portfolio allocation, with an average cost of \$1.75USD.

Our thesis is basically a pick and shovel to the cannabis industry, with a company that will potentially grow their revenues to commensurate their current market capitalization of ~\$179M USD. At this point, due to the infancy of their organization and the industry, financial statement analysis and projections are rather meaningless. We must wait and see if they can increase revenues in a meaningful fashion, of their vertically integrated operation.

I like to see insiders having skin in the game, and they certainly do with KushCo, as they own >34% of the company. There has been insider selling from the beginning of 2019, through July of 2019.

I also like to see “Big 4 auditors,” which KushCo does not have. Yet, they recently replaced their auditors with Marcum. Marcum is certainly a higher tier than RBSM, and I have no issues with them as opposed to a Big 4.

There are four major concerns I have with the company, and/or industry.

One of these concerns, is a company specific concern, and that is the ongoing SEC investigation (see notes below). The price of the stock has \$5.32 per share when the investigation was announced. The price plummeted 67% since, and hence our entry point. Of course, there is tremendous risk here, yet perhaps the deflated stock price has more than accounted for this risk. Stay tuned.

The second concern is the current vaping crisis. As of this writing, there is speculation that the deaths from vaping have occurred from black market cannabis. KushCo, or a producer of vaporizers, and cartridges, could benefit if this is the case, if regulation in design and packaging was increased. Massachusetts recently put for now a temporary ban on vaping, and there is the possibility that other or all other legal states will follow. The third concern is the recent rounds of financing, which were traditionally more expensive than the past, as well as other companies in the industry.

The fourth and last material concern was their financial statement restatements. I never like to see this, yet it does sometimes happen with companies in their infancy. Perhaps the recent hiring of Marcum helps alleviate this concern.

As in all our cannabis research, we expect eventual world-wide legalization of cannabis, like the alcohol industry today. Canada is the first G-7 nation to legalize cannabis, and we expect other G-7's to follow suit, including the USA.

Again, this is a speculative investment, in a speculative industry, and cannabis is Federally illegal in the USA. The company could have execution risks, which are also inherent in the industry. The industry is in its infant stages, and there could be several catalysts to increase the share price over time. These catalysts could include legalization in the USA, changes in laws of a Canadian company selling to States in the USA, greater acceptance of cannabis as a long-term future industry in the USA and the world.

October 4, 2019 (\$1.65) Initiated a position

Bought 133552 Shares of KSHB at \$1.75 per Share for approximately \$233,999.72. This was a 0.50% portfolio position for most accounts.

October 3, 2019 (\$1.76) A revisit

Marcum replaced RBSM LLP as the Company's independent auditor to provide audit services for the Company for the fiscal year ending August 31, 2019, effective August 8, 2019. The appointment of Marcum has been approved by the Company's audit committee. Auditors are RBSM LLP. I am not at all familiar with RBSM, and they had been the auditors since 2014. Marcum is certainly a well-respected name in the auditing industry.

Shares outstanding are 106.0M, and this includes all in the money options. Fully diluted shares are 134.3M. Hence, the market capitalization is \$186.6M, or using fully diluted all shares of \$236.4M.

It was announced on July 18, 2019 that the SEC issued a subpoena for information related to the company's restatement of its consolidated financial statements for the fiscal years ended August 31, 2018 and 2017, and for the three months ended November 30, 2018 and 2017.

I think but could be wrong, there is a huge difference between a request of information and a subpoena.

Common violations that may lead to SEC investigations include:

- Misrepresentation or omission of important information about securities
- Manipulating the market prices of securities
- Stealing customers' funds or securities
- Violating broker-dealers' responsibility to treat customers fairly
- Insider trading (violating a trust relationship by trading on material, non-public information about a security)
- Selling unregistered securities.

Figure 1 - SEC Website

I continue to think KSHB is getting hit by the SEC investigation as well as the vaping crisis. I see little written about the SEC investigation. IMO and I am not fluent in the situation or the rule. As I have mentioned, I think an investigation is materially different than an SEC comment letter. Contrary to popular belief not all cannabis stocks are getting hard. Since little to none is being written about an SEC investigation, I am certainly thinking that my views are unwarranted.

On September 26, 2019 KushCo priced an offering of 17,197,570 units, with each unit consisting of one share of common stock, and a warrant to purchase half a share of common stock, at an offering price of \$1.75 per unit. The warrants will have an exercise price of \$2.25 per share, will be immediately exercisable and will expire five years from the date of issuance. The gross proceeds of the offering will be approximately \$30.1 million before deducting placement agent fees and other estimated offering expenses. The Company intends to use the net proceeds for working capital and for other general corporate purposes.

This offering comes on the heels of a credit facility of \$50M dated August 21, 2019, with Monroe Capital. I have read there is speculation that the \$30M offering was to protect this facility. This facility consists of a \$35M revolving LOC and an additional bucket of up to \$15M, a term of 5 years, and carries a rate of LIBOR + 8.50%, with 500,000 in warrants. The warrants have an exercise price of \$4.25.

Roth Capital Partners in a report dated September 27, 2019 projects revenues of \$149.1M USD for F2019, \$232.4M USD for F2020. They project eps of (\$0.43) for F2019 and (\$0.13) for F2020.

Consensus estimates as of today are:

	FYE August 2019	FYE August 2020	FYE August 2021
Revenues	\$148.05M	\$231.05M	\$333.89M

Earnings Per Share	(\$0.45)	(\$0.20)	\$0.08
Shares outstanding	85.90	92.13	95.77

I take the above estimates with a grain of salt. Primarily because fully diluted outstanding shares I am using is 106M. Yet, not a material concern, as the future of this company is not based on the current valuation, specifically and only if they succeed.

The company provided revenue guidance of \$145M - \$150M for F2019 (8/31/19). Interestingly enough, during November 2018, the company issued F2019 guidance of \$110M - \$120M.

The company is burning a great deal of cash, and of course there could be going concern issues, if liquidity is not available. We have already seen that liquidity was provided in August and September 2019 with unfavorable terms.

The company is carrying accounts receivable of \$14.5M, which is 35% of the most recent quarterly revenues of \$41.5M.

Stockholder's equity is \$103.5M. Tangible Stockholder's equity is \$47.9M.

The company is carrying inventory of \$53M, which is greater than most recent quarterly revenues of \$41.5M.

Insiders have a material amount of stock (~34%), and of course, I like to see skin in the game. You can see below, there was a material amount of insider selling from the beginning of 2019, through July 2019.

#	Investor Name	% Outstanding	Position	Position Change	Value (\$)	Filing Date	Filing Source
1	Imbimbo (Dallas)	11.23%	9.97	-0.30	47.65	18-07-2019	Insider Update
2	Kovacevich (Nicholas)	9.72%	8.64	-0.20	46.28	17-04-2019	Insider Update
3	Nicols (Theodore)	5.55%	4.93	+1.23	26.48	31-12-2018	13G
4	Manasse (Jason)	4.95%	4.40	-0.53	21.00	11-07-2019	13G
5	Wu (Ben)	1.24%	1.10	+0.10	7.41	19-01-2018	Insider Update
6	Baum (Eric)	0.74%	0.66	0	3.52	28-12-2018	Proxy
7	Vegotsky (Jason)	0.30%	0.26	+0.08	1.57	01-03-2019	Insider Update
8	Goodstein (Barbara)	0.03%	0.03	0	0.16	28-12-2018	Proxy
9	Hunter (Donald H)	0.03%	0.03	0	0.16	28-12-2018	Proxy

Quite a bit of insider sales during 2019 so far:

SEC Filing	Insider	Trade Date	Transaction	Shares	Avg. Price	Total	% Holdings
18-Jul-19 6:23 PM View	Imbimbo, Dallas Director 10% Owner	16-Jul-19	Sale (Planned)	65,781	\$4.87	\$320,290.00	(< 1%) 10.04M to 9.97M
18-Jul-19 6:28 PM View	Imbimbo, Dallas Director 10% Owner	17-Jul-19	Sale (Planned)	100,000	\$4.94	\$498,700.00	(< 1%) 10.14M to 10.04M
18-Jul-19 6:28 PM View	Imbimbo, Dallas Director 10% Owner	16-Jul-19	Sale (Planned)	133,219	\$5.01	\$667,560.00	(1%) 10.27M to 10.14M
17-Apr-19 4:57 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	17-Apr-19	Sale (Planned)	25,000	\$5.48	\$137,000.00	(< 1%) 8.66M to 8.63M
17-Apr-19 4:57 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	16-Apr-19	Sale (Planned)	75,000	\$5.54	\$416,500.00	(< 1%) 8.73M to 8.66M
17-Apr-19 4:57 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	15-Apr-19	Sale (Planned)	100,000	\$5.76	\$576,000.00	(1%) 8.84M to 8.73M
14-Mar-19 4:59 PM View	Imbimbo, Dallas Director 10% Owner	14-Mar-19	Sale (Planned)	129,223	\$5.52	\$713,911.00	(1%) 10.4M to 10.27M
14-Mar-19 4:59 PM View	Imbimbo, Dallas Director 10% Owner	13-Mar-19	Sale (Planned)	94,418	\$5.57	\$526,908.00	(< 1%) 10.5M to 10.4M
14-Mar-19 4:59 PM View	Imbimbo, Dallas Director 10% Owner	12-Mar-19	Sale (Planned)	58,785	\$5.74	\$337,426.00	(< 1%) 10.56M to 10.5M
06-Mar-19 4:18 PM View	Vesotsky, Jason Chief Revenue Officer	01-Mar-19	Grant	75,000	--	--	(4%) 139.87K to 214.87K
14-Feb-19 7:02 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	14-Feb-19	Sale (Planned)	25,000	\$5.93	\$149,750.00	(< 1%) 8.86M to 8.84M
14-Feb-19 7:02 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	13-Feb-19	Sale (Planned)	75,000	\$5.83	\$437,250.00	(< 1%) 8.94M to 8.86M
14-Feb-19 7:02 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	12-Feb-19	Sale (Planned)	100,000	\$5.94	\$594,000.00	(1%) 9.04M to 8.94M
07-Feb-19 6:27 PM View	Vesotsky, Jason President, Kush Supply Co.	06-Feb-19	Sale (Planned)	50,000	\$5.67	\$283,500.00	(26%) 189.87K to 139.87K
17-Jan-19 5:17 PM View	Imbimbo, Dallas Director 10% Owner	17-Jan-19	Sale (Planned)	120,000	\$5.46	\$655,200.00	(1%) 10.68M to 10.56M
17-Jan-19 5:17 PM View	Imbimbo, Dallas Director 10% Owner	16-Jan-19	Sale (Planned)	50,000	\$5.15	\$257,500.00	(< 1%) 10.73M to 10.68M
17-Jan-19 5:17 PM View	Imbimbo, Dallas Director 10% Owner	15-Jan-19	Sale (Planned)	140,826	\$5.14	\$864,672.00	(1%) 10.87M to 10.73M
09-Jan-19 6:49 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	09-Jan-19	Sale (Planned)	50,000	\$5.15	\$307,500.00	(< 1%) 11.09M to 11.04M
09-Jan-19 6:49 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	08-Jan-19	Sale (Planned)	50,000	\$6.03	\$301,500.00	(< 1%) 11.13M to 11.09M
09-Jan-19 6:49 PM View	Kovacevich, Nicholas Chairman and CEO Director 10% Owner	07-Jan-19	Sale (Planned)	100,000	\$5.98	\$598,000.00	(< 1%) 11.23M to 11.13M

Cut and paste from a report emailed today by Whitney Tilson. He mentioned Tom Carroll, who writes the Cannabis Capitalist newsletter:

“KushCo is a partner to the major players in the cannabis industry across the globe. It provides custom-packaging solutions, the gases necessary for extraction, and branding and strategy help through its marketing agency, the Hybrid Creative.

Much of the company's decline has come in recent months as the mysterious lung disease continues to claim victims and make headlines.

KushCo is a big servicer to the vaping industry. About 70% of sales come directly from its wholesale vape products and parts. Adding to the fire is its distribution agreement for CCell technology – CCell is a high-quality vape company that uses ceramic cells and has become an industry leader. The owner of the CCell technology is a Chinese company called Smoore Technology. This profile doesn't exactly work well with the current vape scare.

The vaping scare notwithstanding, there are four reasons KushCo is a great contrarian buy right now...

First, while the mysterious respiratory illness brought on by vapes is horrible, the current vaping scare will be solved.

Hundreds of people have been impacted and the number of deaths linked directly to vaping stands at 12. Unfortunately, this count is likely to increase, impacting families nationwide. It's a real tragedy. But put in context, this is a relatively small number.

Five years ago, the CDC found that 3.7% of the entire U.S. population regularly used electronic cigarettes or vaping products. This amounted to more than 9 million people. And academic research suggesting that e-cigarette use was healthier than combustible cigarettes was mounting.

According to the World Health Organization, adult vapers totaled about 41 million globally in 2018. The illnesses and deaths are certainly a risk to investing in KushCo, or any cannabis stock for that matter. Even Altria (MO), the \$75 billion tobacco company that acquired 35% of JUUL in December 2018, has seen its stock fall more than 30% from its April 2019 high, most of that coming in the wake of reports on the vaping illness.

But the relatively small number of cases in the U.S suggests this is driven by an isolated source, perhaps a bad batch of counterfeit or street-made products.

In fact, just today, NBC's Today Show published the findings of its own investigation. It had several illegal vapes and several legally purchased vapes sent to a lab to be studied. The legal vapes were 100% as advertised. The illegal vapes contained pesticides, vitamin E acetate, and other agents used to cut the active ingredients.

This completely dovetails with our view of the current problem – illegally purchased products. The widespread media coverage will lead to investment pain and potentially slower sales of vape products in the short run. It will also catalyze needed regulation and push customers toward high-quality products, like the ones made with CCell technology.

Secondly, the vaping scare will drive users to the legal markets and quality products.

One of the most touted practices in recent months is to make sure you purchase only quality products sold by manufacturers or dispensaries you know. Both the FDA and the CDC began this campaign in August. Purchasing illegally may be cheaper, but the user has no idea what he or she is getting.

We believe the daily reports of illness and death will encourage illegal users to switch to the legal markets where available. This in turn will pivot the market toward higher-quality products that have been tested by the regulated states in which they are sold. Both of these moves could actually benefit KushCo over the longer term.

For example, CCell products sold by KushCo use ceramic – not metal – in their vapes. Heavy metal contents, including lead, in vape oils are some of the leading suspects in the vaping-related illnesses. CCell will not leech metal into the cartridges.

Third, customized product labeling will see increased demand...

Quality, tested products will want to give you more information, not less, on their packaging. These include comprehensive labels, barcodes, and microchips to differentiate products.

During the first two quarters of 2019, about 17% of KushCo's revenue came from its Packaging and Labeling products and services. We believe this segment will see increased demand. Supporting our view of growth, KushCo recently signed an exclusive distribution agreement with De La Rue. This is a provider of authentication solutions that will combat counterfeit products. It will provide the company's labeling business with the ability to track and confirm the products are what they say they are.

This will give KushCo and its customers increased comfort in the products distributed by the company.

Last, KushCo shares are trading at a valuation of less than 1 times sales. In my view, this is being driven completely by the current vape scare impacting the entire cannabis and e-cig market.

Despite this valuation, 2019 calendar revenue is expected to climb 110% and approach \$200 million. 2020 estimates capture slowing growth as current consumers figure out what they want to do. This is positive, as the vape market is unlikely to escape the current fear. Even with the scare, current estimates suggest 47% growth.

Said differently, should the 1 times sales multiple hold into 2020, the market cap will increase 47% in line with revenue growth.

While risky (as we don't know the ultimate outcome of the vaping-related illness), diving a bit deeper into some rationale around the business gives us comfort that KushCo shares are a decent bet to make – especially now – in the emerging cannabis market.

KushCo is still a buy up to \$10 a share. Use this opportunity to purchase shares if you haven't already.” **Thomas Carroll** <https://assets.stansberryresearch.com/static/a-contrarian-bet-in-the-midst-of-the-vaping-scare-2-252341.html>

Notes from September 2019 Investor Presentation

PRODUCTS + SERVICES



Packaging + Labeling

- + An industry leader in sustainable packaging
- + Supporting variety of regulations + markets with over 1,500 SKUs



Energy + Natural Products

- + Reliable delivery of hydrocarbons + solvents
- + Tested, Food-Safe oils found in most plants to enhance sensorial effects



Papers + Supplies

- + Compliant labels + processing supplies
- + High quality pre-rolled cones available to fulfill demand of the fastest growing segments



Vaporizer Hardware + Technology

- + 1 of 4 exclusive CCELL distributors in the U.S.
- + Cartridges and batteries with a variety of core materials and heating technologies



The Hybrid Creative

- + Full spectrum creative services
- + From market research to go-to-market campaigns



CBD Brokerage

- + Help customers obtain placement in mass retail

Q3 FY19 HIGHLIGHTS

- + Record-breaking quarter of **\$41.5MM** in net revenue, up **221% YoY**
- + Gross margins improved **~490 bps QoQ** on a GAAP basis
- + California revenue up **235% YoY**
- + Michigan revenue **\$1.2M** and **164% QoQ**
- + Energy and Natural Products now **10%** of revenue
- + Over last four quarters, we've had **30** customers spend more than **\$500K up from 14 in FY2018**
- + Customers spending more than **\$1MM** over the last four quarters purchased an average of **73 SKUs**
- + Majority of the QoQ revenue growth in FY19 Q3 **was organic**

REVENUE BY 4 CATEGORIES QoQ + YoY

Product Categories	2019 Q3 Revenue	% of Revenue	Q3 over Q3 PY Growth	2018 Q3 Revenue	Q3 over Q2 Growth	2019 Q2 Revenue
Vape	\$28.8	69%	299%	\$7.2	20%	\$24.0
Packaging	\$7.5	18%	118%	\$3.5	21%	\$6.2
Papers & Supplies	\$1.0	2%	-43%	\$1.7	-13%	\$1.1
Energy & Natural Products	\$4.2	10%	741%	\$0.5	9%	\$3.9
TOTAL REVENUES	\$41.5	100%	221%	\$12.9	18%	\$35.2

BALANCE SHEET (As of May 31, 2019)

ASSETS		LIABILITIES & SHAREHOLDERS EQUITY	
Cash	\$12	Current Liabilities	\$30
Current Assets (ex-cash)	\$81	Debt	\$18
Other Assets	\$68	Other Liabilities	\$9
Total Assets	\$161	Total Liabilities	\$57
		Shareholders Equity	\$104
		Liabilities and Shareholders Equity	\$161

*amounts in millions

Note: Company secured a revolving credit facility of up to \$50 million from Monroe Capital in August 2019

As Reported 07/09/2019

July 13, 2018 (\$5.0341) Eliminated position at \$5.0341.

This became too risky for me, as the market cap is much greater than our first purchase, mostly via dilution, and somewhat share price increase. I would consider repurchasing at a market cap of \$160M at most, which would be a share price of \$1.78. I will actually revisit at \$2.50 or less.

July 13, 2018 (\$5.06) 10Q released

90M fully diluted shares outstanding:

Shares Outstanding July 9, 2018	74,198,243
Stock Options in the money	6,960,166
Warrants	3,750,000
CMP Wellness potential pending	4,740,960
Total	89,649,369

Market cap using fully diluted would be ~\$454M.

July 12, 2018 (\$5.21) reports 3Q18 May 31, 2018

Revenue was up 173% Year-over-Year to \$12.9 million.

Net loss of (\$2.2M).

Shareholder equity of \$72.3M. Tangible equity of \$17.85M. This increases by \$51M for post financial statement capital raise.

Fully diluted shares outstanding not released, but seems like > 70M, hence market cap a hefty and obscene \$365M.

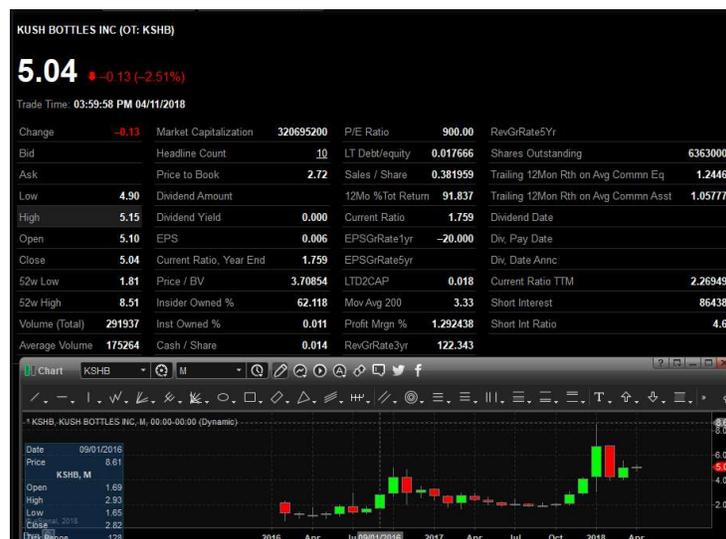
June 8, 2018 (\$4.99) Down 25% on

420i has increased share count for calculation to 89.6M, I will use 90M, hence a market cap of \$450M. This is an incredibly hefty number.

May 1, 2018 (\$5.65) change of outstanding shares

I was using 64M shares as the outstanding shares. 420i has listed fully diluted shares outstanding as 75M. Hence, the market cap would be 424M. That sure is a hefty number.

April 11, 2018 (\$5.04) 2Q18 (2/28/18) earnings released – We only own ~11K shares after pairing down in January 2018.



Revenues for 3 months ended 2/28/18 were \$10.4M, versus 1Q17 of \$3.0M. Revenue was up 249% Year-over-Year.

Gross margin 28%, versus 36% QoQ. This is attributed to increased business in the lower margin vaporizer and cartridge product segments.

Operating expenses increased by a large amount. These include stock compensation expense and SG&A.

Net loss of \$920K, or (\$0.01) per share.

Weighted average shares outstanding 62.2M. Shares authorized presented at ~64M shares. Hence a market cap of \$323M.

Balance sheet healthy and clean for now.

Book value is \$53M. Tangible book value is \$19M.

Cash balance was \$7.1 million as of February 28, 2018 compared to \$0.9 million at August 31, 2017. This increase was primarily a result of a \$6 million equity investment by the Company's new strategic partner, Merida Capital Partners.

"We have made significant headway expanding our offering to encompass a comprehensive portfolio of solutions that power the cannabis industry and position Kush Bottles as a critical link in the cannabis supply chain. This expansive product portfolio, which included packaging, vaporizers, compliance and branding solutions, drove strong revenue growth of 249% to reach approximately \$10 million in the second fiscal quarter of 2018 compared with approximately \$3 million in Q2 of fiscal 2017. By staying on top of industry trends and developments and proactively building a dynamic and flexible business, we have increased the number of customers, average order size, and order volume in all our markets. This strategy has also broadened our client base and provided improved revenue stability to the Company.

We are therefore entering the second half of fiscal 2018 in a strong position to grow revenues and gain market share, using a combination of organic growth and M&A activity. In January, adult use cannabis sales commenced in California, which we expect to drive a gradual revenue ramp throughout the remainder of the year. Furthermore, we have already made inroads building our East Coast distribution platform, which represents a new market for us and significantly expands our potential addressable market. Our recently announced proposed acquisition of Summit Innovations, a leading supplier of hydrocarbon gases to cannabis extractors, will further enable us to enter another critical stage of the cannabis supply chain and advance our strategy to build Kush Bottles into a diversified provider of critical support services to the cannabis industry." **Nick Kovacevich, Chairman and CEO**

January 5, 2018 (\$3.34) - We established a small position on January 5, 2018 @ \$3.34 per share. We sold off half of that position on January 16, 2018 for \$7.15 per share. Less than 1/4 of 1% of any portfolio with > \$300K in it. Should it drop to < \$2.50, without changes to its valuation, business, etc., I would probably buy a bit more.

March 15, 2017 (\$1.80)

Just started looking at company. 52-week high of \$5.00, and 52-week low of \$0.90.

FY2017-Q1 ending 11/30/16 revenues were \$2.47M. This was up 44% YoY, yet 420i wrote, "company growth slowed dramatically."

Gross margin increased to 33.8% from 32.6% in prior quarter, and 33.0% from a year ago.

Cowen and Co. covers KSHB, with a "Buy" rating and price target of \$4.50. They have FY2017 revenue estimate of \$13.8M, and F2018 of \$27.7M. Cowen felt the short fall was temporary in nature.

52.5M shares outstanding, including 2.46M of options exercisable at \$0.79.

Market capitalization is \$94.5M (52.5*\$1.80).

Insider selling exists:



Number of records: 9

SEC Filing	Insider	Trade Date	Transaction	Shares	Avg. Price	Total	% Holdings	Return
08-Feb-17 1:41 PM View	Imbimbo Dallas Director 10% Owner	06-Feb-17	Sale	148,400	\$1.75	\$259,700.00	(1%) 11.75M to 11.6M	
24-Jan-17 4:45 PM View	Imbimbo Dallas Director 10% Owner	23-Jan-17	Sale	250,000	\$2.00	\$500,000.00	(2%) 12.0M to 11.75M	
17-Nov-16 10:13 AM View	Gamet Greg Director	14-Nov-16	Private Sale	60,000	\$2.00	\$120,000.00	(6%) 1.08M to 1.02M	
22-Aug-16 3:30 PM View	Gamet Greg Director	03-Jul-16	Sale	90,000	\$1.00	\$90,000.00	(8%) 1.16M to 1.07M	
30-Jun-16 2:45 PM View	Gamet Greg Director	21-Jan-16	Gift Duplicate	159,000	--	--	(12%) 1.33M to 1.18M	
28-Jan-16 2:01 PM View	Gamet Greg Director	21-Jan-16	Gift	159,000	--	--	(12%) 1.33M to 1.18M	
28-Jan-16 1:42 PM View	Martin Chris CFO	18-Jan-16	Acquisition (other)	50,000	\$32,270.00	\$1,613,500,032.00	50% 100.0K to 150.0K	
28-Jan-16 2:01 PM View	Gamet Greg Director	15-Jan-16	Acquisition (other)	22,500	\$0.65	\$14,521.50	2% 1.15M to 1.18M	
30-Jun-16 2:45 PM View	Gamet Greg Director	15-Jan-16	Acquisition (other) Duplicate	22,500	\$0.65	\$14,521.50	2% 1.15M to 1.18M	

Book Value is \$6,328,778, less \$2,376,589 in Goodwill. Hence, TBV is \$3,952,189, or \$0.75 per share.

The Company leases its California and Colorado facilities from related parties. During the three months ended November 30, 2016 and 2015, the Company made rent payments of \$50,700 and \$42,300, respectively, to these related parties.

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