

August 14, 2018



Xspand Products Lab, Inc. Provides Second Quarter 2018 Corporate Update and Financial Results

Q2 2018 Revenues and Work in Process Collectively Increased 21% to \$5.6 million Year-Over-Year

DOYLESTOWN, Pa., Aug. 14, 2018 (GLOBE NEWSWIRE) -- **Xspand Products Lab, Inc.** ("**Xspand**"), a full-service product development company, today provided a corporate update and reported its financial results for the second quarter ended June 30, 2018.

Recent Operational Highlights:

- Announced the intent to acquire Edison Nation, LLC (Edison Nation), a current strategic partner, providing Xspand with an engine for product innovation and a strong pipeline of micro-brand opportunities.
- Engaged with Church & Dwight, BLACK + DECKER, and Worthington Industries to launch innovation searches in product categories of each companies' respective area of interest, aggregating relevant submissions through the Company's Edison Nation platform.
- Launched a new Crowdfunding tool by which Xspand will cover development and crowdfunding campaign-related costs for select, high-potential ideas, allowing products to reach the market at lightening-speed to maximize sales and reduce total R&D costs.
- Signed with Great Wolf Lodge as a customer, an operator of 18 water park resorts, to create a line of customized traditional and interactive products.
- Announced development of an innovative new line of interactive light-up consumer products for theme park and entertainment venue markets.
- Announced an exclusive two-year manufacturing agreement with a leading children's sleep products brand with sales in North America, Europe, Asia, and Australia.
- Signed a micro-brand licensing deal with Culinary Kraft, LLC to launch the Wi-Fi ready, remote controlled MasterSous 8-in-1 multi-cooker with autonomous magnetic stirring.
- Signed a letter of intent to build a new 80,000 square foot production facility in Alpha, New Jersey to supplement the Company's 30,000 square foot current facility. The Company plans to consolidate all of its U.S. subsidiaries to the new facility, which will

reduce overhead expenses and increase product-level gross margins.

- Successfully completed an initial public offering in May 2018, selling an aggregate of 1,307,120 shares of its common stock at a public offering price of \$5.00 per share, resulting in gross proceeds of approximately \$6.5 million.

Management Commentary

“During our first quarter as a public company, we reported dramatic growth in our work-in-process which reached \$1.2 million during the second quarter. This growth was driven by orders from many of our OEM customers and doesn’t include backlog from additional orders we received during the second quarter,” said Chris Ferguson, Chief Executive Officer of Xspand Products Lab. “In the quarter we also signed deals with several significant new customers including Church & Dwight, BLACK + DECKER, Worthington Industries and Great Wolf Lodge. We expect revenue from these new customers, and others, to contribute to our growth in the second half of the year.”

“Subsequent to the end of the second quarter, we announced the acquisition of our strategic partner, Edison Nation. The acquisition is expected to close in the near future and will be immediately accretive to our business. Edison Nation has been a great strategic partner and now, as part of Xspand, they will serve as our engine for product innovation and provide a strong pipeline of micro-brand opportunities for us to leverage. We believe that this acquisition, combined with Xspand’s growing customer base of blue chip clients and the proceeds of our successful IPO, positions us well for future growth,” concluded Mr. Ferguson.

Second Quarter 2018 Financial Results

Revenue in the second quarter of 2018 totaled \$4.4 million, compared to \$4.5 million in the second quarter of 2017.

Work in process related to firm commitment purchase orders received from Xspand’s customers totaled \$1.2 million as set forth on the balance sheet in the second quarter of 2018, compared to \$64,000 in the same year-ago quarter. Collectively, these work in process orders and revenues increased 21% to \$5.6 million in the second quarter, compared to \$4.6 million the the same year-ago quarter. A majority of the work in process order received in the second quarter of 2018 is expected to be delivered and recognized in the third quarter of 2018.

Gross profit totaled \$1.3 million in the second quarter of 2018, compared to \$1.2 million in the second quarter of 2017. Gross profit margin as a percentage of revenue increased to 28.8% in the second quarter of 2018, compared to 27.6% in the second quarter of 2017. The increase in gross profit margin as a percentage of revenues was primarily due to lower per unit fixed costs resulting from the increase in revenues.

Operating expenses were \$1.7 million in the second quarter of 2018, compared to \$0.7 million in the second quarter of 2017. The increase was primarily attributable to certain one-time indirect costs incurred related to the IPO, as well as increased salaries related to the hiring of Xspand employees and executives during second quarter of 2018.

Net loss totaled \$0.7 million, or (\$0.18) per basic and diluted share, in the second quarter of 2018, compared to net income of \$0.6 million, or \$0.19 per basic and diluted share, in the

second quarter of 2017. The decrease in net income was primarily due to the aforementioned increase in operating expenses, of which \$0.3 million were non-cash stock compensation expenses.

Adjusted EBITDA totaled \$0.2 million after one-time and non-cash charges in the second quarter of 2018, compared to \$0.7 million in the second quarter of 2017. See below under the heading, "Use of Non-GAAP Financial Information" for a discussion of Adjusted EBITDA and a reconciliation of such measure to the most comparable measure calculated under U.S. generally accepted accounting principles ("GAAP").

Cash and cash equivalents at June 30, 2018 totaled \$3.9 million, as compared to \$1.1 million at March 31, 2018. In April 2018, Xspand successfully completed a public offering, selling an aggregate of 1,307,120 shares of its common stock at a public offering price of \$5.00 per share, resulting in approximately \$6.5 million in gross proceeds. The Company believes it currently has sufficient funds to meet its working capital, debt service and capital expenditure requirements for at least the next 12 months.

Further details about Xspand's results in the second quarter of 2018 are available in its Quarterly Report on Form 10-Q, accessible in the investor relations section of the Company's website at www.xspandproductslab.com and through the U.S. Securities and Exchange Commission's website.

More Information On Xspand Product Labs and Edison Nation

Edison Nation (www.EdisonNation.com) is an open innovation platform that enables inventors from around the world to submit ideas for potential consumer and medical products. On average, Edison Nation's online platform receives 50-75 submissions per day. Using this business model, Edison Nation offers a capital-lite, high-reward process that accelerates product development timelines and significantly reduces research and development expenses.

Click [here](#) for a brief video interview discussing the recently proposed acquisition with Chris Ferguson, Founder and CEO of Xspand Products Lab, and Louis Foreman, Founder and CEO of Edison Nation.

Since inception, Edison Nation has received over 100,000 idea submissions, with products selling in excess of \$250 million at retail through the management of over 300 campaigns in their marketplace for clients. These clients include many of the largest manufacturers and retailers in the world such as Amazon, Bed Bath and Beyond, HSN, Rite Aid, P&G, Jarden and more.

New Crowdfunding Opportunity

Together with Xspand, Edison Nation is rolling out its new Crowdfunding tool, which was introduced to drive higher success potential for ideas to be commercialized. Investors submit their ideas through the Edison Nation website, and for all ideas chosen from the Crowdfunding search, Edison Nation will handle the costs to develop the products and run their respective crowdfunding campaigns. Successful campaigns will provide a stronger position for products to be commercialized, either directly by Edison Nation and Xspand, or through traditional licensing agreements.

Chris Ferguson, added: "Utilizing the efficient and effective opportunities that exist with

crowdfunding, we are able to identify proprietary products through idea submission, find the 'best of the best', and launch them into the market quickly. Together, we are able to not only source these great ideas, but assist with everything from manufacturing and product development, to fulfillment and logistics and sales and marketing. This de-risked business model provides both the inventor and our companies a significant opportunity to grow quickly, while realizing maximum sales potential for a given product.”

Edison Nation’s proprietary platform ensures privacy of intellectual property through binding agreements and it streamlines communication and negotiations with innovators. For over 10 years, Edison Nation has been and continues to be the trusted destination for innovators, partners and consumers alike and the trusted leader for quality innovation.

About Edison Nation, LLC

Since 2008, Edison Nation has been the go-to resource for independent innovators with great consumer product invention ideas. The company is the only innovation partner with multiple commercialization channels to bring new product ideas – from sketches, to proof of concept prototypes and late-stage inventions – to consumers worldwide. The community platform has generated hundreds of millions at retail. The company is committed to bringing new consumer innovation to market through its secure and proprietary platform found at www.EdisonNation.com.

About Xspand Products Lab, Inc.

Xspand Products Lab, Inc. (NASDAQ: XSPL) is a vertically integrated and full-service product development and manufacturing company, including design, sales, fulfillment and shipping. Xspand's model is to provide a risk mitigated platform that connects innovators with companies to bring new products to market. For more information, please visit www.xspandproductslab.com.

Use of Non-GAAP Financial Information

EBITDA and Adjusted EBITDA is a financial measure that is not calculated in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Management believes that because Adjusted EBITDA excludes (i) certain non-cash expenses (such as depreciation, amortization and stock-based compensation) and (ii) expenses that are not reflective of Xspand’s core operating results over time (such as restructuring costs, litigation or dispute settlement charges or gains, and transaction-related costs), this measure provides investors with additional useful information to measure Xspand’s financial performance, particularly with respect to changes in performance from period to period. Xspand’s management uses EBITDA and Adjusted EBITDA (a) as a measure of operating performance; (b) for planning and forecasting in future periods; and (c) in communications with Xspand’s Board of Directors concerning Xspand’s financial performance. Xspand’s presentation of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation and should not be used by investors as a substitute or alternative to net income or any measure of financial performance calculated and presented in accordance with U.S. GAAP. Instead, management believes EBITDA and Adjusted EBITDA should be used to supplement Xspand’s financial measures derived in accordance with U.S. GAAP to provide a more complete understanding of the trends affecting the business.

Forward Looking Statements

This press release contains forward-looking statements that involve substantial risks and

uncertainties. All statements, other than statements of historical facts, included in this press release regarding strategy, future operations and plans, including assumptions underlying such statements, are forward-looking statements, and should not be relied upon as representing Xspand's views as of any subsequent date. Examples of such statements include statements regarding the strength of Xspand's operations and financial position for 2018, anticipated cash resources for continued operations, sales of Xspand's products, enhancement of Xspand's marketing efforts, the impact of Xspand's portfolio development strategy, planned regulatory submissions and potential approvals, anticipated product launches, the potential benefits of Xspand's products, Xspand's efforts with respect to marketing in U.S. and international markets, and results of potential third-party collaborations. Such forward-looking statements are based on information available to Xspand as of the date of this release and involve a number of risks and uncertainties, some beyond Xspand's control, that could cause actual results to differ materially from those anticipated by these forward-looking statements, including consumer, regulatory and other factors affecting demand for Xspand's products, any difficulty in marketing Xspand's products in global markets, competition in the market for consumer products, any inability to raise capital to fund operations and service Xspand's debt. Additional information that could lead to material changes in Xspand's performance is contained in its filings with the SEC. Xspand is under no obligation to, and expressly disclaims any responsibility to, update or alter forward-looking statements contained in this release, whether as a result of new information, future events or otherwise.

Investor Relations:

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**Xspand Products Lab, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|--|----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,930,844 | \$ 557,268 |
| Accounts receivable, net | 1,654,502 | 1,430,236 |
| Inventory | 227,630 | 240,061 |
| Prepaid expenses and other current assets | 1,159,731 | 41,461 |
| Loan held for investment | 500,000 | - |
| Due from related party | 1,250,959 | 834,897 |
| Total current assets | 8,723,666 | 3,103,923 |

| | | |
|-----------------------------|---------------------|---------------------|
| Property and equipment, net | 915,104 | 966,904 |
| Total assets | <u>\$ 9,638,770</u> | <u>\$ 4,070,827</u> |

Liabilities and stockholders' equity (deficit)

Current liabilities:

| | | |
|--|---------------------|---------------------|
| Accounts payable | \$ 1,283,748 | \$ 1,135,039 |
| Accrued expenses and other current liabilities | 386,182 | 137,709 |
| Current portion of notes payable - related parties | 264,896 | 225,553 |
| Total current liabilities | <u>1,934,826</u> | <u>1,498,301</u> |
| Notes payable - related parties, non-current | 2,653,011 | 2,770,947 |
| Deferred tax liability | 34,209 | 34,209 |
| Total liabilities | <u>\$ 4,622,046</u> | <u>\$ 4,303,457</u> |

Commitments and contingencies (Note 9)

Stockholders' equity (deficit)

Common stock, \$0.001 par value, 250,000,000 shares authorized; 4,368,930 and 3,000,000 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively

| | | |
|--|---------------------|---------------------|
| | \$ 4,369 | \$ 3,000 |
| Additional paid-in capital | 7,551,951 | - |
| Accumulated deficit | <u>(2,539,596)</u> | <u>(235,630)</u> |
| Total stockholders' equity (deficit) | <u>5,016,724</u> | <u>(232,630)</u> |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 9,638,770</u> | <u>\$ 4,070,827</u> |

Xspand Products Lab, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | <u>For the Three Months</u> <u>Ended June 30,</u> | | <u>For the Six Months</u> <u>Ended June 30,</u> | |
|--|--|------------------|--|------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Revenues, net | \$ 4,387,197 | \$ 4,534,970 | \$ 7,818,527 | \$ 8,396,746 |
| Cost of revenues | <u>3,124,221</u> | <u>3,285,443</u> | <u>5,453,215</u> | <u>6,083,115</u> |
| Gross profit | <u>1,262,976</u> | <u>1,249,527</u> | <u>2,365,312</u> | <u>2,313,631</u> |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,352,438 | 655,224 | 2,183,925 | 1,163,043 |
| Selling, general and administrative - stock-based compensation expense | <u>306,000</u> | <u>-</u> | <u>2,027,250</u> | <u>-</u> |

| | | | | |
|--|-----------------------------|--------------------------|-------------------------------|----------------------------|
| Total operating expenses | <u>1,658,438</u> | <u>655,224</u> | <u>4,211,175</u> | <u>1,163,043</u> |
| Operating (loss) income | <u>(395,462)</u> | <u>594,303</u> | <u>(1,845,863)</u> | <u>1,150,588</u> |
| Other (expense) income: | | | | |
| Rental income | 25,703 | 25,703 | 51,407 | 51,407 |
| Interest (expense) income | <u>(277,602)</u> | <u>1,252</u> | <u>(365,137)</u> | <u>2,443</u> |
| Total other (expense) income | <u>(251,899)</u> | <u>26,955</u> | <u>(313,730)</u> | <u>53,850</u> |
| (Loss) income before income taxes | <u>(647,361)</u> | <u>621,258</u> | <u>(2,159,593)</u> | <u>1,204,438</u> |
| Income tax expense | <u>79,300</u> | <u>47,486</u> | <u>144,373</u> | <u>91,225</u> |
| Net (loss) income | <u>\$ (726,661)</u> | <u>\$ 573,772</u> | <u>\$ (2,303,966)</u> | <u>\$ 1,113,213</u> |
| Net (loss) income per share | | | | |
| - basic and diluted | <u>\$ (0.18)</u> | <u>\$ 0.19</u> | <u>\$ (0.66)</u> | <u>\$ 0.37</u> |
| Weighted average number of common shares outstanding – basic and diluted | <u>3,932,084</u> | <u>3,000,000</u> | <u>3,468,617</u> | <u>3,000,000</u> |

Xspand Products Lab, Inc. and Subsidiaries
Reconciliation of Net Income (Loss) to Adjusted EBITDA
(Unaudited)

| | For the Three Months | | For the Six Months Ended | |
|-----------------------------------|-----------------------------|--------------------------|---------------------------------|----------------------------|
| | Ended | | June 30, | |
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Net (loss) income | <u>\$ (726,661)</u> | <u>\$ 573,772</u> | <u>\$ (2,303,966)</u> | <u>\$ 1,113,213</u> |
| Interest expense, net | 277,602 | (1,252) | 365,137 | (2,443) |
| Income tax expense | 79,300 | 47,486 | 144,373 | 91,225 |
| Depreciation and amortization | <u>39,631</u> | <u>51,467</u> | <u>79,262</u> | <u>102,934</u> |
| EBITDA | <u>(330,128)</u> | <u>671,473</u> | <u>(1,715,194)</u> | <u>1,304,929</u> |
| Stock-based compensation | 306,000 | - | 2,027,250 | - |
| Restructuring and severance costs | 18,000 | - | 18,000 | - |
| Transaction and acquisition costs | 150,702 | - | 150,702 | - |
| Other non-recurring costs | <u>63,386</u> | <u>-</u> | <u>63,386</u> | <u>-</u> |
| Adjusted EBITDA | <u>\$ 207,960</u> | <u>\$ 671,473</u> | <u>\$ 544,144</u> | <u>\$ 1,304,929</u> |



Source: Xspand Products Lab, Inc.