6D Global Technologies, Inc
Form 10-Q
November 12, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

OR

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

For the Transition Period from ___ to ___

Commission file number 001-35002

6D GLOBAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	98-0516425 (I.R.S. Employer Identification Number)

17 State Street, Suite 450, New York, NY 10004
(Address of principal executive offices) (Zip Code)

Telephone: (646) 681-4900
(Registrant's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

Number of common shares outstanding at November 10, 2014: 77,067,083.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

6D GLOBAL TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash	$ 4,593,714	$ 5,611
Accounts receivable	1,323,057	1,117,624
Unbilled revenues	181,273	131,844
Deferred tax assets	79,146	-
Prepaid expenses and other current assets	61,762	47,457
Total Current Assets	6,238,952	1,302,536
Property and Equipment, net	124,793	183,841
Other Assets		
Restricted cash	110,645	110,499
Security deposits	24,075	48,707
Due from related party	-	410,130
Total Other Assets	134,720	569,336
Total Assets	$ 6,498,465	$ 2,055,713
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,618,926	$ 818,316
Due to factor	502,222	870,295
Current maturities of capital lease liability	49,536	52,892
Current maturities of notes payable	4,950	586,600
Total Current Liabilities	2,175,634	2,328,103
Long-Term Liabilities		
Capital lease liability, net of current maturities	93,212	131,348
Notes payable, net of current maturities	56,720	60,020
Deferred tax liabilities	3,588	-
Security deposit payable	30,000	-
Deferred rent	62,236	73,192
Total Long-Term Liabilities	245,756	264,560
Total Liabilities	2,421,390	2,592,663

Commitment and Contingencies				
Stockholders' Equity (Deficit)				
Preferred stock, par value $0.00001; 10,000,000 shares authorized; 0 shares issued and outstanding		-		-
Common stock, par value $0.00001; 150,000,000 shares authorized as of September 30, 2014; 77,067,083 and 38,215,054 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively		771		382
Additional paid-in capital		4,387,618		2,618
Accumulated deficit		(311,314)		(539,950)
Total Stockholders' Equity (Deficit)		4,077,075		(536,950)
Total Liabilities and Stockholders' Equity	$	6,498,465	$	2,055,713

See accompanying notes to the condensed consolidated financial statements (unaudited)

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6D GLOBAL TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues	$2,709,066	$2,238,832	$8,299,053	$7,066,986
Total revenues	2,709,066	2,238,832	8,299,053	7,066,986
Cost of revenues	1,713,409	1,568,487	4,952,021	4,765,377
Gross margin	995,657	670,345	3,347,032	2,301,609
Operating expenses				
Compensation	601,977	763,135	1,573,378	2,116,535
Selling, general and administrative	272,412	346,510	931,398	811,303
Total operating expenses	874,389	1,109,645	2,504,776	2,927,838
Income (loss) from operations	121,268	(439,300)	842,256	(626,229)
Other income (expense)				
Interest expense, net	(81,934)	(50,137)	(105,869)	(90,073)
Loss on debt extinguishment	-	-	(57,502)	-
Realized gain on sale of marketable securities	-	(3,435)	-	1,382
Other expense, net	(81,934)	(53,572)	(163,371)	(88,691)
Income before income taxes expense	39,334	(492,872)	678,885	(714,920)
Income tax expense (benefit)	7,745	-	(52,122)	-
Net income (loss)	$31,589	$(492,872)	$731,007	$(714,920)
Net income (loss) per common share - basic	$0.00	$(0.01)	$0.02	$(0.02)
Weighted average common shares - basic	39,499,702	38,215,054	38,696,586	38,215,054
Net income (loss) per common share - diluted	$0.00	$(0.01)	$0.02	$(0.02)
Weighted average common shares - diluted	39,615,792	38,215,054	38,839,722	38,215,054

See accompanying notes to the condensed consolidated financial statements (unaudited)

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6D GLOBAL TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income (loss)	$31,589	$(492,872)	$731,007	$(714,920)
Other comprehensive income (loss):				
Net unrealized gain on marketable securities	-	-	-	3,100
Reclassification to realized gain on sale of marketable securities	-	-	-	(4,817)
Other comprehensive loss	-	-	-	(1,717)
Comprehensive income (loss)	$31,589	$(492,872)	$731,007	$(716,637)

See accompanying notes to the condensed consolidated financial statements (unaudited)

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6D GLOBAL TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Cash Flows From Operating Activities:		
Net income (loss)	$ 731,007	$ (714,920)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	59,048	19,178
Amortization of debt issuance costs	-	1,753
Realized gain on sale of marketable securities	-	1,382
Loss on debt extinguishment	57,502	-
Deferred Tax Benefit	(75,558)	-
Deferred Rent	(10,956)	62,415
Restricted Cash	(146)	(110,449)
Changes in operating assets and liabilities:		
Accounts receivable	(205,433)	(90,341)
Unbilled revenues	(49,429)	(63,088)
Prepaid expenses and other current assets	(14,305)	(6,689)
Security deposits	54,632	(35,983)
Accounts payable and accrued liabilities	800,610	477,534
Net Cash Provided by (Used in) Operating Activities	1,346,972	(459,208)
Cash Flows From Investing Activities:		
Purchase of property & equipment	-	(12,143)
Proceeds from sale of marketable securities	-	24,983
Loans to related parties	(46,433)	(27,935)
Net Cash Used in Investing Activities	(46,433)	(15,095)
Cash Flows From Financing Activities:		
Bank Overdraft	-	32,009
Gross proceeds on line of credit	-	6,119,112
Repayments on line of credit	-	(6,629,950)
Gross proceeds on factor borrowing	8,012,245	2,114,952
Repayments on factor borrowing	(8,380,318)	(1,344,834)
Distribution to shareholder	(45,808)	(40,821)
Repayment of capital lease obligations	(41,492)	(24,395)
Proceeds on issuance of notes payable	20,000	175,000
Repayment of notes payable	(259,950)	(4,950)
Proceeds from private placement, net of issuance costs	3,982,887	-
Net Cash Provided by Financing Activities	3,287,564	396,123
Net change in cash	4,588,103	(78,180)
Cash, beginning of period	5,611	78,180

Cash, end of period	$	4,593,714	$	-
Supplemental disclosures of cash flow information:				
Cash paid for taxes	$	4,495	$	1,824
Cash paid for interest	$	108,349	$	33,401
Supplemental disclosure of non-cash investing and financing activities:				
Capital lease of computer equipment	$	-	$	182,303
Conversion of notes payable into common stock issuable	$	345,000	$	-
Reclassification of due from related party as profit distribution	$	456,563	$	-
Net unrealized gain on marketable securities	$	-	$	4,817

See accompanying notes to the condensed consolidated financial statements (unaudited)

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6D GLOBAL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Operations

6D Global Technologies, Inc. (the "Company or "6D Global") is a premier digital business solutions company serving the digital marketing and technology needs of enterprise-class organizations worldwide. 6D Global offers a full suite of services and solutions to help large organizations optimize digital business channels and create better experiences for their customers. Services include web content management, web analytics, marketing automation, mobile applications, business intelligence, marketing cloud, and IT infrastructure staffing solutions. In addition, the Company provides digital marketing and digital technology consulting services to leading enterprises during periods of critical change and growth.

As more fully described below, on September 29, 2014, CleanTech Innovations Inc. ("CleanTech") consummated an Agreement and Plan of Share Exchange (the "Exchange Agreement") with Six Dimensions, Inc., a Nevada corporation formerly known as Initial Koncepts, Inc. ("Six Dimensions"), whereby CleanTech acquired all of the issued and outstanding capital stock of Six Dimensions, 29,643,068 shares, in exchange for 38,664,871 shares of Common Stock (an exchange ratio of approximately 1.3 shares of CleanTech common stock for each share of Six Dimensions stock), and, simultaneously therewith, CleanTech completed a private placement equity offering to accredited investors. Pursuant to this private placement, CleanTech received $4,556,100 in gross proceeds and issued 2,201,031 shares of Common Stock to the purchasers thereunder. Pursuant to the Exchange Agreement, on September 29, 2014, CleanTech converted into a Delaware corporation whereby it changed its name to 6D Global Technologies, Inc. (stock symbol: "SIXD", website: www.6DGlobal.com), increased the number of its authorized shares of capital stock from 28,985,507 to 160,000,000 shares, of which 150,000,000 shares were designated common stock, par value $0.00001 per share (the "Common Stock") and 10,000,000 shares were designated preferred stock, par value $0.00001 per share (the "Preferred Stock").

Company history

CleanTech was incorporated on May 9, 2006, in the State of Nevada. Through its wholly owned operating subsidiaries in China, Creative Bellows Co., Ltd. and Liaoning Creative Wind Power Equipment Co., Ltd., CleanTech designed, manufactured, tested and sold structural towers for on-land and off-shore wind turbines. Effective as of September 29, 2014, subsequent to the Exchange Agreement, CleanTech changed its state of incorporation from the State of Nevada to the State of Delaware (the "Reincorporation") pursuant to a plan of conversion, dated September 29, 2014 (the "Plan of Conversion"). The Reincorporation was accomplished by the filing of (a) Articles of Conversion with the Secretary of State of the State of Nevada (the "Nevada Articles of Conversion"), (b) a Certificate of Incorporation with the Secretary of State of the State of Delaware (the "Delaware Certificate of Incorporation"), and (c) a Certificate of Conversion with the Secretary of State of the State of Delaware (the "Delaware Certificate of Conversion").

Six Dimensions was originally incorporated as Initial Koncepts, Inc. in the State of California on February 9, 2004. On June 25, 2014, Initial Koncepts, Inc. converted from an S-Corporation into a California LLC and changed its name to Six Dimensions, LLC. On June 27, 2014, Six Dimensions, LLC converted into a Nevada C-Corporation and changed its name to Six Dimensions, Inc.

On September 29, 2014, the Company undertook the following events:

- Converted into a Delaware corporation.

- Changed its name to 6D Global Technologies Inc.
- Increased the number of its authorized shares of capital stock from 28,985,507 to 160,000,000 of which 150,000,000 shares were designated Common Stock, par value $.00001 per share and 10,000,000 shares were designated Preferred Stock, par value $.00001 per share.

On the same date and concurrently to the transactions described above, the Company also undertook the following transactions, which are more fully discussed in the Management Discussion and Analysis section of this report:

- Share exchange – CleanTech consummated the Exchange Agreement with Six Dimensions, Inc., whereby the Company acquired all of the issued and outstanding capital stock of Six Dimensions in exchange for 38,664,871 shares of Common Stock.
  - Private placement - CleanTech completed a private placement equity offering to accredited investors. The Company received $4,556,100 in gross proceeds and issued 2,201,031 shares of Common Stock.
- Debt conversion – CleanTech converted approximately $16,000,000 of debt owed to NYGG (Asia) LTD. in exchange for 35,149,883 shares of Common Stock.

The Exchange is being treated as a reverse acquisition and recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of CleanTech's operations were disposed of prior to the consummation of the transaction. Six Dimensions is treated as the accounting acquirer as its shareholders control the Company after the Exchange Agreement, even though CleanTech was the legal acquirer. As a result, the assets and liabilities and the historical operations that are reflected in these financial statements are those of Six Dimensions as if Six Dimensions had always been the reporting company and, on the date of the Exchange Agreement, changed its name and reorganized its capital stock. Since CleanTech had no operations upon the Exchange Agreement taking place, the transaction was treated as a recapitalization for accounting purposes and no goodwill or other intangible assets were recorded by the Company as a result of the Exchange Agreement. Historical common stock amounts and additional paid-in capital have been retroactively adjusted using the exchange ratio of approximately 1.3 shares of CleanTech Common Stock for each one common share of Six Dimensions.

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Note 2 – Liquidity

At September 30, 2014 and December 31, 2013, the Company had cash balances of approximately $4,594,000 and $5,600, respectively. The Company also had working capital of approximately $4,063,000 as of September 30, 2014 and a working capital deficit of approximately $1,026,000, as of December 31, 2013. In 2013, the Company principally financed its operations from using proceeds from issuance of notes and factoring its sales invoices. For the nine months ended September 30, 2014, the Company had net income and net cash flows from operations of approximately $731,000 and $1,347,000, respectively. During the during the nine months ended September 30, 2014, note holders converted $345,000 of promissory notes into equity, and the Company paid back the remaining $255,000 of promissory notes and $4,950 of other loans in cash. Furthermore, prior to 2013, the Company had a history of profitability. In September 2014, the Company completed a private placement equity offering to accredited investors. The Company received $4,556,100 in gross proceeds and issued 2,201,031 shares of Common Stock.

Note 3 – Significant and Critical Accounting Policies and Practices

The management of the Company is responsible for the selection and use of appropriate accounting policies and the appropriateness of accounting policies and their application. Critical accounting policies and practices are those that are both most important to the portrayal of the Company’s financial condition and results and require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Company’s significant and critical accounting policies and practices are disclosed below as required by accounting principles generally accepted in the United States (“U.S. GAAP”).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013 included elsewhere in the Company’s 8-K filed on October 1, 2014. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, since they are interim statements, the accompanying condensed consolidated financial statements do not include all of the information and notes required by U.S. GAAP for annual financial statements, but reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position as of September 30, 2014 and results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the full fiscal year or any future period. The condensed consolidated balance sheet at December 31, 2013 was derived from the audited financial statements as of that date.

The Company’s financial statements include all of its accounts and any intercompany balances have been eliminated in accordance with U.S. GAAP.

Use of Estimates and Assumptions and Critical Accounting Estimates and Assumptions

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s).

Critical accounting estimates are estimates for which (a) the nature of the estimate is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to

change and (b) the impact of the estimate on financial condition or operating performance is material. The Company's critical accounting estimates and assumptions affecting the condensed consolidated financial statements were:

(i) Allowance for doubtful accounts: Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of individual accounts; and general economic conditions that may affect a client's ability to pay. The Company evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole;

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(ii) Fair value of long-lived assets: Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes.

These significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to these estimates or assumptions, and certain estimates or assumptions are difficult to measure or value.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly.

Due to inherent uncertainty involved in making estimates, actual results reported in future periods may be affected by changes in these estimates.

Fair Value of Financial Instruments

The Company has categorized its financial assets and liabilities measured at fair value into a three level hierarchy in accordance with U.S. GAAP. Fair value is defined as an exit price, the amount that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Financial assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, financial assets and liabilities that are rarely traded or not quoted have less price observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability.

The three (3) levels of fair value hierarchy are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company's financial assets and liabilities, such as cash, accounts receivable, unbilled revenues, prepaid expense and other current assets, accounts payable, and due to factor, approximate their fair values because of the short maturity of these instruments.

The Company's capital lease liability and notes payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements at September 30, 2014 and December 31, 2013.

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Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information; and determines the allowance for doubtful accounts based on historical write-off experience, customer specific facts and economic conditions.

Management charges balances off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company determines when receivables are past due or delinquent based on how recently payments have been received.

Outstanding account balances are reviewed individually for collectability. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. As of September 30, 2014 and December 31, 2013, the allowance for doubtful accounts was not material.

The Company does not have any off-balance-sheet credit exposure to its customers.

Revenue Recognition

The Company provides its services primarily under time-and-materials contracts. Revenues earned under time-and-material arrangements are recognized as services are provided. The Company recognizes revenue from the provision of professional services when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered to the customer, (iii) the sales price is fixed or determinable and (iv) collectability is reasonably assured. Appropriate allowances for returns and discounts are recorded concurrent with revenue recognition.

Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled revenues.

Earnings (Loss) Per Share

The Company follows ASC 260, "Earnings Per Share" ("EPS"), which requires presentation of basic and diluted EPS on the face of the income statements for all entities with complex capital structures, and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

The following is the computation of diluted EPS for the three and nine months ended September 30, 2014:

	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	Net income (Numerator)	Shares (Denominator)	Per Share Amount	Net income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ 31,589	39,499,702	$ 0.00	$ 731,007	38,696,586	$ 0.02
Dilutive shares related to warrants		116,090			143,136	
Dilutive EPS	$ 31,589	39,615,792	$ 0.00	$ 731,007	38,839,722	$ 0.02

	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	Net income (Numerator)	Shares (Denominator)	Per Share Amount	Net income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ (492,872)	38,215,054	$ (0.01)	$ (714,920)	38,215,054	$ (0.02)
Dilutive shares related to warrants		-			-	
Dilutive EPS	$ (492,872)	38,215,054	$ (0.01)	$ (714,920)	38,215,054	$ (0.02)

Income Tax Provision

On June 25, 2014, Initial Koncepts, Inc. converted from an S-Corporation into a California limited liability company ("LLC") and changed its name to Six Dimensions, LLC. From inception through June 26, 2014, the Company was taxed as an S Corporation under the Internal Revenue Code of 1986, as amended and applicable state statutes. Under an S-Corporation election, the income of the Company flows through to the stockholders to be taxed at the individual level rather than the corporate level. Accordingly, the Company had no tax liability at the federal level (with limited exceptions) as long as the S-Corporation election was in effect. On June 27, 2014, Six Dimensions, LLC converted into a Nevada C-Corporation and changed its name to Six Dimensions, Inc.

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In addition, the Company had elected to be treated as a Subchapter S corporation for Arizona, California, Colorado, Kentucky, Massachusetts, Ohio and Virginia corporate for income tax purposes. This treatment imposes individual income taxes on the shareholder's respective shares of corporate profits and results in reduced corporate level state tax.

The income allocable to each shareholder is subject to examination by federal and state taxing authorities. In the event of an examination of the income tax returns, the tax liability of the stockholders could be changed if an adjustment in the income is ultimately determined by the taxing authorities. As of September 30, 2014, the tax returns of the Company for the years 2011 through 2013 remain open for the Internal Revenue Service and various state authorities.

Deferred taxes are computed based on the tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between financial and tax reporting purposes. The net difference, if any, between the provision for taxes and taxes currently payable is reflected in the balance sheet as deferred taxes. Deferred tax assets and/or liabilities, if any, are classified as current and non-current based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability. Valuation allowances are recorded to reduce deferred tax assets to that amount which is more likely than not to be realized.

The Company records interest and penalties as a component of selling, general and administrative expenses. There were no amounts accrued for penalties or interest as of September 30, 2014 and December 31, 2013 or during the three and nine months ended September 30, 2014 and 2013. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

Certain transactions of the Company may be subject to accounting methods for federal income tax purposes that differ significantly from the accounting methods used in preparing the condensed consolidated financial statements in accordance with U.S. GAAP. Accordingly, the taxable income of the Company reported for federal income tax purposes may differ from net income in these condensed consolidated financial statements.

The Company did not take any uncertain tax positions and had no adjustments to its income tax liabilities or benefits as of September 30, 2014 and December 31, 2013.

Receivables under Factoring Agreement

The Company factors its receivables with recourse and, as a result, accounts for the factoring akin to a secured borrowing, maintaining the gross receivable asset and due to factor liability on its books and records. The financial institution makes available 90% of the face value of the eligible receivables to the company and retains the remaining 10% as a guaranteed until receipt of the proceeds associated with the factored invoices.

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-08, "Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)." This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. ASU 2014-08 is not expected to have a material impact on the financial statements.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. Amendments in this ASU create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is the final version of Proposed ASU 2011-230 – Revenue Recognition (Topic 605) and Proposed ASU 2011–250 – Revenue Recognition (Topic 605): Codification Amendments, both of which have been deleted. The amendments in this ASU are effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the effects of ASU 2014-09 on the financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions and repurchase-to-maturity transactions and the tenor of those transactions. This ASU is the final version of Proposed ASU 2013-10 – Transfers and Servicing (Topic 860), which has been deleted. The accounting changes in this ASU are effective for the first interim or annual period beginning after December 15, 2014. ASU 2014-11 is not expected to have a material impact on the financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation- Stock Compensation. The amendments in this ASU apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. This ASU is the final version of Proposed ASU EITF-13D – Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which has been deleted. The proposed amendments would apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target could be achieved after the requisite service period. This ASU is the final version of Proposed ASU EITF-13D – Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which has been deleted. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, and early adoption is permitted. ASU 2014-12 is not expected to have a material impact on the financial statements.

Note 4 – Property and Equipment

The following is a summary of property and equipment:

	September 30, 2014	December 31, 2013
Property and equipment	$ 249,281	$ 249,281
	(124,488)	(65,440)

Less accumulated depreciation and amortization				
Property and equipment, net	$	124,793	$	183,841

Depreciation and amortization expense totaled $59,048 and $19,178 for the nine months ended September 30, 2014, and 2013, respectively.

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Note 5 – Related Party Transactions

Due from Related Party

The Company had a loan outstanding to its largest stockholder. The balance as of December 31, 2013 was $410,130. The receivable bore interest at 2.64% with no definite repayment terms and during the nine months ended September 30, 2014 interest totaled $46,433. During the nine months ended September 30, 2014, the loan balance of $456,563 was eliminated as the Company treated the loan balance as a stockholder distribution. No amounts were due from the related party at September 30, 2014.

Stockholder distributions for the nine months ended September 30, 2014 and the year ended December 31, 2013 totaled $502,371 and $49,972 respectively.

Note 6 – Accrued and Other Liabilities

Accrued and other current liabilities consist of the following:

	September 30, 2014	December 31, 2013
Accrued trade payables	$ 1,221,023	$ 561,145
Accrued compensation	374,467	257,171
Income tax payable	23,436	-
Total Accrued and other current liabilities	$ 1,618,926	$ 818,316

Note 7 – Letter of Credit and Restricted Cash

The Company has secured a standby letter of credit for the benefit of the landlord for the required security deposit on their office facility in New York.

The Bank letter of credit is in the amount of $110,422. The letter of credit expires on July 1, 2015 and contains renewal periods of one year.

The letter of credit was collateralized by $110,645 and $110,499 of cash at September 30, 2014 and December 31, 2013, respectively, which was reported as restricted on the condensed consolidated balance sheets.

Note 8 – Due to Factor

On August 6, 2013, the Company signed a one year agreement with a financial services company for the purchase and sale of accounts receivables with a recourse basis. The financial services company commenced funding during August 2013. The financial services company advances up to 90% of qualified customer invoices, less applicable discount fees, and holds the remaining 10% as a reserve until the customer pays the financial services company. The released reserves are returned to the Company. The Company is charged 1.15% for the first thirty (30) days outstanding as well as each subsequent month plus prime plus 1.75% daily for funds outstanding over thirty (30) days. Uncollectable customer invoices are charged back to the Company after ninety (90) days. At September 30, 2014 and December 31, 2013, the advances from the factor, inclusive of fees, amounted to $589,034 and $997,160, respectively, which were offset against due from factor of $86,812 and $106,865, respectively. Advances from the factor are collateralized by substantially all assets of the Company.

On August 21, 2014 the Company renewed its agreement with the same financial services company to continue the same purchasing and sales of its accounts receivable on a recourse basis. The renewed agreement will expire on August 6, 2015.

Note 9 – Notes Payable

On May 27, 2014, the Company sold a $20,000 promissory note maturing in August 2014. The note bore interest at 1% per month with interest payable monthly. The note was subsequently converted into equity.

During May and June of 2014, certain note holders converted their promissory notes into common shares. In total, $345,000 of promissory notes was converted into 300,001 shares of common stock. In connection with the note conversions, the Company recorded a loss on debt extinguishment of $57,502 in the accompanying condensed consolidated statements of operations.

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As discussed in Note 2 – Liquidity, during the nine months ended September 30, 2014, the Company repaid the remaining $255,000 of outstanding notes payable that had not converted into equity.

Note 10 – Stockholder’s Equity

Issuance of Common Stock

During June 2014, the Company issued 142,362 shares of common stock to investors in private placements at $1.75 per share for total proceeds of $191,000.

During July 2014, the Company issued 7,454 shares of common stock to an investor in a private placement at $1.75 per share for total proceeds of $10,000.

During May and June of 2014, certain note holders converted their promissory notes into common shares. In total, $345,000 of promissory notes was converted into 300,001 shares of common stock. In connection with the note conversions, the Company recorded a loss on debt extinguishment of $57,502 in the accompanying condensed consolidated statements of operations.

The Company completed a private placement equity offering to accredited investors. The Company received $4,556,100 in gross proceeds and issued 2,201,031 shares of Common Stock. The issuance costs associated with the private placement were $774,213. These costs have been recorded as a reduction to additional paid-in capital as of September 30, 2014.

The Exchange Agreement completed on September 29, 2014 had the following impact on stockholders’ equity:

- The January 1, 2014 beginning balance of common shares, common stock and additional paid in capital were changed to reflect the exchange of 1.3 CleanTech shares for each share of Six Dimensions

- The stockholders’ equity balances of CleanTech as of September 29, 2014 were added to total stockholders’ equity to reflect the recapitalization transaction.

Note 11 – Warrants

On September 29, 2014, in connection with the Exchange, the Company completed a private placement equity offering (the “Private Placement), to accredited investors, raising $4,556,100 in gross proceeds. For its assistance in the private placement of equity, the Company paid a placement agent $356,250 and issued it warrants to purchase 258,155 shares of the Company’s common stock. The fair value of the warrants was calculated using the Black-Scholes model and the following assumptions: estimated life of five years, volatility of 46.5%, risk-free interest rate of 1.77% and dividend yield of 0%. The fair value of the warrants at grant date was $1,660,526.

The Company uses the basis for the accounting of warrants issued in connection with the private placement to the placement agent in accordance with ASC 480 “Distinguishing Liabilities from Equity” and ASC 815 “Derivatives and Hedging.” The warrants were considered an issuance cost for the private placement and therefore were deducted from the gross proceeds reducing equity.

Note 12 – Commitments and Contingencies

Operating Leases

The Company is obligated under various operating lease agreements for office facilities in California, Florida, New York and Ohio. In addition, the Company leases office facilities on a month-to-month basis in Minnesota and Colorado.

Rent expense under all office leases aggregated $84,082 and $255,499 for the three and nine months ended September 30, 2014, respectively. Rent expense under all office leases aggregated $99,392 and $169,651 for the three and nine months ended September 30, 2013, respectively. Rent expense was recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

The Company is also obligated under various operating lease agreements for equipment. Rent expenses under all equipment leases aggregated $17,740 and $57,836 for the three and nine months ended September 30, 2014, respectively. Rent expenses under all equipment leases aggregated $26,842 and $59,174 for the three and nine months ended September 30, 2013, respectively. Rent expenses under all equipment leases are recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

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Future minimum payments of the Company's operating leases are as follows:

2014 (remainder of year)	$165,623
2015	335,045
2016	281,539
2017	288,309
2018	191,679
Thereafter	-
Total	$1,262,195

New York Office Sub-lease

In February 2014, the Company signed a twenty-four (24) month agreement to sub-lease a portion of it office facilities in New York City expiring in February 2016. The lease requires base annual rental payments to the Company of $120,000 for the term of the lease. Rental income will be recognized on a straight-line basis over the term of the lease. As part of the lease agreement, the Company received a $30,000 security deposit, which is shown as a liability on the accompanying condensed consolidated balance sheets.

California Leases

In April 2014, the Company signed a lease amendment for its office facilities in San Ramon, California. The amendment extends the lease past the May 31, 2014 expiration date on a month to month basis with monthly rental payments of $2,836. In June 2014, the Company cancelled the lease, and the lease expired on September 30, 2014.

In April 2014, the Company signed a thirty-eight (38) month lease agreement for its office facilities in Pleasanton, California expiring in August 2017. The lease requires base annual rent of approximately $34,000 for the first year, with increases in increments of 3% each year thereafter. The lease contains a two (2) month rent abatement period starting on July 1, 2014. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains one option to renew for a term of thirty-six (36) months.

Deferred Rent

To induce the Company to enter into certain operating leases, landlords have granted free rent for various months over the term of occupancy. Rent expenses recorded on the straight-line basis in excess of rents paid is recognized as deferred rent. As of September 30, 2014 and December 31, 2013, deferred rent was $62,236 and $73,192, respectively which is shown as a liability in the condensed consolidated balance sheets.

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The Company's capital lease obligations are as follows:

	September 30, 2014	December 31, 2013
In July, 2011 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in July, 2014; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $406.90.	-	2,399
In September, 2011 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2014; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $479.78.	-	3,760
In January, 2012 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in January, 2015; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $227.87.	677	2,650
In June, 2012 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in December, 2014; (ii) Interest at 5.75%; (iii) Payable in 30 monthly payments of $778.87.	1,548	8,328
In March, 2013 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2018; (ii) Interest at 5.75%; (iii) Payable in 24 monthly payments of $634.28.	3,510	(4,073

)

Balance, June 30, 2018

630

24,254,013

$

313

$

285,722

$

(269,201

)

$

16,834

Transactions with Preferred Stock Holders.

In February 2017, we issued and sold 2,000 shares of Series G convertible preferred stock and sold warrants to purchase 1,423,488 shares of common stock (exercise price of $0.96 per share, exercisable beginning in February 2017 and expiring in February 2022). One of the investors was a subordinated note holder that exchanged subordinated notes with a principal and carrying value of $0.1 million and cash for 180 shares of the Series G preferred stock and related warrants, which was treated as an extinguishment of debt. The net cash proceeds from the sale was $1.7 million, after deducting allocated cash offering expenses of $0.1 million. On the date of issuance, we allocated $1.0 million of the proceeds to derivative warrant liability, to record the warrants at fair value, recorded a $0.1 million loss on extinguishment and reduced debt $0.1 million related to the subordinated noteholders exchange, and recorded $1.2 million as preferred stock. We recorded a $0.8 million dividend on preferred stock for the preferred stock beneficial conversion feature equal to the proceeds allocated to the preferred stock issued to purchases who did not exchange debt, as the fair value of the common stock underlying the convertible preferred stock at issuance exceeded the amount recorded in preferred stock.

Transactions with Senior Debenture Holders

In February 2017, we sold and issued in a private placement, for an aggregate subscription amount of $6.0 million: (i) senior debentures in the principal amount of $6.6 million and (ii) warrants to purchase an aggregate of 6,875,000 shares of common stock (exercise price of $0.96 per share, exercisable beginning February 2017 and expiration February 2022). We received aggregate net proceeds of $5.5 million, after deducting placement agent fees and allocated expenses of $0.5 million. Concurrently, we amended existing warrants, held by the debenture purchasers, for the purchase of up to 875,000 shares to (i) reduce the exercise prices from an average $5.49 per share to $0.96 per share, providing the warrants are not exercisable until August 2017, and (ii) change the expiration dates to August 2022, which increased the average remaining term of the warrants from 2.1 years to 5.5 years. We recorded $4.6 million as an increase to derivative warrant liabilities, to record the warrants at their fair value on the date of issuance, the $0.5 million as an increase in common stock to record the change in fair value of existing warrants and the remaining $0.4 million to debt, debt issuance costs and debt discount. We used the net proceeds from the offering to (i) pay off the senior revolving loan and term loan debt totaling $3.8 million and (ii) pay $0.2 million of principal and $0.3 million of interest due on subordinated notes and (iii) for working capital and general corporate purposes. We filed a registration statement on Form S-3, which became effective in May 2017, to register the resale of shares underlying the warrants issued to the senior debenture purchasers.

Transaction with Subordinated Note Holders

In connection with the February 2017 senior debenture private placement, we entered into agreements which resulted in (i) a reduction in the annual interest rate on the subordinated notes from 11.75% to 7% (ii) an extension of the maturity date of the subordinated notes to May 2019 from May 2018 (iii) the payment of an aggregate amount equal to $0.5 million on the subordinated notes, (iv) the issuance of warrants to purchase up to 3,484,675 shares of our common stock (exercise price of $0.96 per share, expiration February 2022), and (v) the amendment of existing warrants held by the subordinated note holders for the purchase 289,669 shares of common stock to reduce the exercise price from $5.25 per share to $0.96 per share. We accounted for the transaction as an extinguishment of debt and issuance of new debt. In February 2017, we (i) recorded a loss on extinguishment of debt of $1.5 million, (ii) adjusted subordinated notes payable debt down by $0.9 million, to its fair value as of the transaction date, (iii) increased derivative liability by $2.3 million, representing the fair value of the newly issued warrants, and (iv) increased common stock equity by $0.1 million for the change in the fair value of the existing warrants.

Transactions with Holders of Warrants with Full Ratchet Anti-Dilution Clauses

As a result of the February 2017 financing transactions described above, the exercise price of certain warrants that contained full ratchet anti-dilution provisions was reduced from $1.50 per share to $0.96 per share and the number of shares of common stock underlying these warrants increased from 1,489,868 shares to 2,327,919 shares. The warrants were subsequently exercised in the third and fourth quarters of 2017.

Other Equity Issuances

In the three months ended March 31, 2018, we issued 50,469 shares of common stock to employees with an average fair value at issuance of $1.38 per share and 27,882 shares of common stock to a consultant, with an average fair value at issuance of $1.42 per share.

In the three months ended June 30, 2018, we issued 208,855 shares of common stock to directors with an average fair value at issuance of $1.78. The shares vest the earlier of June 19, 2019 or one day prior to our next annual meeting of shareholders.

Equity Incentive Plan

In June 2018, shareholders approved a 3,000,000 increase in the number of shares authorized for issuance under the 2014 Equity Incentive Plan (2014 Plan). The total shares authorized under the 2014 Plan is now 6,300,000 shares.

Options

In January 2018, we issued options to employees for the purchase of up to 278,873 shares of common stock at an exercise price of $1.42 and a grant date fair value of $0.97 per share. The options vest and become exercisable in four equal annual installments beginning in January 2019.

Warrants

In the three months ended March 31, 2018, we issued warrants for the purchase of up to 315,000 shares of common stock, at a weighted average exercise price of $4.73 per share and a weighted average term of 2.4 years. We recognized $0.1 million of expense for these issuances.

In the three months ended March 31 2018, warrant holders exercised, at $0.96 per share, warrants for the purchase of 1,827,999 shares of common stock (remaining term at December 31, 2017, of 4.3 years). In the three months ended June 30 2018, warrant holders exercised, at $0.96 per share, warrants for the purchase of 4,092,077 shares of common stock (remaining term at December 31, 2017, of 4.1 years).

Restricted Stock Units

In June 2017, we issued restricted stock units (RSUs), under the 2014 Plan, to our executive officers covering a total of 1,175,000 shares of our common stock. The shares subject to the RSUs vest based upon a vesting price equal to the volume weighted average trading price of our common stock over sixty-five consecutive trading days. Each RSU's shares vest (i) 10% if the vesting price equals or exceeds $5.00 per share, (ii) 30% if the vesting price equals or exceeds $10.00 per share and (iv) 60% if the vesting price equals or exceeds $15.00 per share. The shares had a grant date fair value of $0.2 million which was being expensed ratably over a 3.5-year period beginning in July 2017. In

January 2018, 60% of the RSUs issued in June 2017 were cancelled. The portion cancelled related to the $15.00 per share target vesting price. As modified, the shares have a remaining value of $0.1 million at June 30, 2018, which is being expensed ratably over a 3.0-year period.

NOTE 9. FAIR VALUE MEASUREMENTS

The fair value of cash and cash equivalents, accounts and other receivables and accounts payable approximates their carrying value due to their shorter maturities.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain assets and liabilities are presented in the financial statements at fair value. Assets and liabilities measured at fair value on a recurring basis include derivative warrant and conversion liabilities. Assets and liabilities measured at fair value on a non-recurring basis may include property.

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We assess the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – inputs include quoted prices for identical instruments and are the most observable.
Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.
Level 3 – inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

For instruments measured using Level 3 inputs, a reconciliation of the beginning and ending balances is disclosed.

The following tables summarize the changes in Level 3 items measured at fair value on a recurring basis (in thousands).

Total Level 3 Fair Value	Fair Value as of Beginning of Period	Total Realized and Unrealized Gains (Losses) (1)	Issuance of New Instruments	Reclassify to (Deficit) Equity	Fair Value, at End of Period
Six Months Ended June 30, 2017, derivative warrant liabilities	$ (1,527)	$ 1,121	$ (7,917)	$ 7,851	$ (472)

(1) Included in change in fair value of derivative warrant liabilities in our consolidated statements of operations.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Employment Contracts and Severance Payments

In the normal course of business, we periodically enter into employment agreements which incorporate indemnification provisions. While the maximum amount to which we may be exposed under such agreements cannot be reasonably estimated, we maintain insurance coverage, which we believe will effectively mitigate our obligations under these indemnification provisions. No amounts have been recorded in our financial statements with respect to any obligations under such agreements.

We have employment contracts with certain officers and key management that include provisions for potential severance payments in the event of without-cause terminations or terminations under certain circumstances after a change in control. In addition, vesting of outstanding nonvested equity grants would accelerate following a change in control.

Leases

We lease certain properties under various operating lease arrangements that expire over the next 16 years. These leases generally provide us with the option to renew the lease at the end of the lease term.

In March 2018, we entered into a triple net lease for approximately 5,380 square feet of office space in The Woodlands, Texas. We took possession of the space May 31, 2018. The initial term of the lease is 65 months and rent is abated for the first five months. Minimum monthly base rents total $0.1 million per year during the initial term of the lease. We recognize rent expense of $0.1 million per year for base rent, plus additional amounts for operating expenses, real estate taxes and other items. We may extend the term of the lease for an additional five-year period at a fair market base rent, as defined in the agreement.

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Litigation Costs

From time to time we are involved in litigation incidental to the conduct of our business. These matters may relate to employment and labor claims, patent and intellectual property claims, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. When applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations. Defense costs are expensed as incurred and are included in professional fees.

NOTE 11. RELATED PARTY TRANSACTIONS

Entities beneficially owned by Baruch Halpern, a director, invested in our subordinated notes and related warrants prior to 2016. Throughout the first six months of 2017, Mr. Halpern beneficially held approximately 43% of our outstanding subordinated debt which was repaid in full in July 2017 from the proceeds of the sale of HN. The warrants remain outstanding. See Note 8 for information related to the modification of the subordinated notes, repricing of related warrants and the issuance of warrants to subordinated note holders in February 2017. In three months and six ended June 30, 2017, we paid $0.2 million and expensed $0.2 million of interest on the subordinated notes, respectively.

NOTE 12. INCOME TAXES

Our tax expense for the three months and six month ended June 30, 2018, differs from the tax expense computed by applying the U.S. statutory tax rate to net loss from continuing operations before income taxes as no tax benefits were recorded for tax losses generated in the U.S. As of June 30, 2018, we had deferred tax assets primarily related to U.S. federal and state tax loss carryforwards. We provided a full valuation allowance against our deferred tax assets as future realization of such assets is not more likely than not to occur.

Based on our analysis of tax positions taken on income tax returns filed, we have determined no material liabilities related to uncertain income tax positions were required. Although we believe the amounts reflected in our tax returns substantially comply with applicable U.S. federal, state and foreign tax regulations, the respective taxing authorities may take contrary positions based on their interpretation of the law. A tax position successfully challenged by a taxing authority could result in an adjustment to our provision or benefit for income taxes in the period in which a final determination is made.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, the United States enacted significant changes to U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the Tax Act or TCJA).

On December 22, 2017, the SEC issued guidance to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. We have substantially completed our accounting for the tax effects of the enactment of the Tax Act. Our deferred tax assets and liabilities were remeasured for a change in the federal tax rate from 34 percent to 21 percent, immediate expensing of qualifying property, and effects of TCJA on state taxes. We will obtain, prepare and continue to analyze our tax information during the

measurement period, up to and including the period in which we file our 2017 consolidated federal income tax return. We may further adjust recorded amounts during the measurement period should future guidance, additional information and interpretations with the respect to the TCJA come to our attention. We made no such adjustments during the six months ended June 30, 2018.

The Tax Act also contains several base broadening provisions that became effective on January 1, 2018, that we do not expect to have a material impact on our financial statements.

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

	Three Months Ended June 30		Change	Six Months Ended June 30		Change
	2018	2017	%	2018	2017	%
	(in thousands)			(in thousands)		
Revenues	$ 3,198	$ 3,146	1.7	$ 6,750	$ 6,761	(0.2)
Cost of goods sold	2,535	2,348	(8.0)	5,133	4,776	(7.5)
Gross profit	663	798	(16.9)	1,617	1,985	(18.5)
Gross profit %	20.7 %	25.4 %		24.0 %	29.4 %	
Selling, general and administrative expenses	2,830	2,667	(6.1)	5,683	4,933	(15.2)
Loss from operations	(2,167)	(1,869)	(15.9)	(4,066)	(2,948)	(37.9)
Other income (expense):						
Interest expense	(2)	(475)		(3)	(1,530)	
Change in fair value of derivative warrant liabilities	-	22		-	1,121	
Loss on extinguishment of debt	-	-		-	(1,680)	
Other, net	9	33		(4)	(63)	
Other income (expense), net	7	(420)		(7)	(2,152)	
Loss before income taxes	$ (2,160)	$ (2,289)		$ (4,073)	$ (5,100)	

Results of Operations – Three Months Ended June 30, 2018

Revenues increased $52 thousand, or 1.7%, in the second quarter of 2018 compared to the second quarter of 2017. Animal feed product revenues were relatively flat while food product revenues increased 3% year over year, primarily due to increased buying from existing customer base.

Gross profit percentage declined 4.7 percentage points to 20.7% in the second quarter of 2018, from 25.4% in the second quarter of 2017. The decline in gross profit was primarily attributable to the approximately 37.9% increase in raw bran prices and reduced plant utilization. The decrease in plant utilization was primarily due to closures or production delays caused by the drum dryer capital expenditure project and plant improvements related to the SQF certification project at the Dillon plant. Additionally, our Mermentau plant experienced a supply shortage which caused production to idle in the second quarter of 2018. Due to the supply shortage, we shipped our animal feed orders from California which resulted in higher shipping costs. We expect a supply agreement we entered into with a rice miller in July 2018, to reduce our risk of experiencing supply shortages after July 2018.

Selling, general and administrative (SG&A) expenses were $2.8 million in 2018, compared to $2.7 million in 2017, an increase of $0.2 million, or 6.1%. An increase of $0.1 million compared to the second quarter of 2018 is primarily related to building our sales team to reach our revenue goals in 2018, an increase in operations and quality assurance staff to meet SQF certification, and an increase of $0.1 million increase related to professional services and warehouse expenses related to the SQF certification project. Corporate portion of SG&A expenses decreased $0.1 million in the second quarter of 2018 compared to the same period in 2017. The decrease was primarily related to professional service expenses decrease of $0.1 million, share-based compensation expense decrease of $0.1 million, investor relations expense decrease of $0.1 million, while rent and relocation expenses increased $0.1 million, compared to the second quarter of 2017.

Other income (expense) was other income of $7 thousand in the second quarter of 2018 compared to $0.4 million of other expense for the second quarter of 2017. Interest expense decreased $0.5 million, as virtually all debt was paid in

full in July 2017.

Results of Operations – Six Months Ended June 30, 2018

Revenues were relatively flat in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Animal feed product revenues increased 2%. Animal nutrition revenue growth continues to be driven by the supply and cooperation agreement entered into with Kentucky Equine Research (KER) at the end of December 2015. Food product revenues decreased 2% year over year, primarily due to reduced buying from existing customer base and specifically prior contract manufacturing accounts.

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Gross profit percentage declined 5.4 percentage points to 24.0% from 29.4% in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The decline in gross profit was primarily attributable to the approximately 24.7% increase in raw bran prices and reduced plant utilization in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The decrease in plant utilization was primarily due to closures or production delays caused by the drum dryer capital expenditure project and plant improvements related to the SQF certification project at the Dillon plant. Additionally, our Mermentau plant experienced a supply shortage which caused production to idle in the second quarter of 2018. Due to the supply shortage, we shipped our animal feed orders from California which resulted in higher shipping costs. We expect a supply agreement we entered into with a rice miller in July 2018, to reduce our risk of experiencing supply shortages after July 2018.

Selling, general and administrative (SG&A) expenses were $5.7 million compared to $4.9 million, an increase of $0.8 million, or 15.2%, in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. An increase of $0.3 million is primarily related to building our sales team to reach our revenue goals in 2018, and an increase in operations and quality assurance staff to meet SQF certification. Additionally, in the first six months ended June 30, 2018, bonus related accruals increased $0.1 million, outside services increased $0.1 million, warehouse expenses increased $0.1 million, and warehouse rent increased $0.1 million compared to the first six months ended June 30, 2017. Corporate portion of SG&A expenses increased $0.1 million in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was primarily related to increased travel related expenses.

Other income (expense) was other expense of $7 thousand compared to $2.2 million in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Interest expense decreased $1.5 million, as virtually all debt was paid in full in July 2017. Change in fair value of derivative liabilities decreased $1.1 million between years and as of December 31, 2017, there are no derivative liabilities remaining. The loss on extinguishment of debt in 2017 of $1.7 million was primarily related to a transaction with subordinated note holders which is discussed further in Note 8 of our Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Cash used in operating activities of continuing operations is presented below (in thousands).

	Six Months Ended June 30	
	2018	2017
Cash flow from operating activities of continuing operations:		
Loss from continuing operations	$ (4,073)	$ (4,188)
Adjustments to reconcile loss from continuing operatiosn to net cash used in operating activities of continuing operations:		
Depreciation and amortization	371	414
Stock and share-based compensation	431	654
Change in fair value of derivative warrant and conversion liabilities	-	(1,121)
Loss on extinguishment of debt	-	1,680
Interest accreted	-	893
Deferred taxes	-	(876)
Other	155	58
Changes in operating assets and liabilities:		
Accounts receivable	(136)	(38)
Inventories	165	(16)
Accounts payable and accrued expenses	148	(824)
Other	(26)	353
Net cash used in operating activities of continuing operations	$ (2,965)	$ (3,011)

As of June 30, 2018, our cash and cash equivalents balance was $7.7 million and our restricted cash balance was $0.2 million, compared to a cash equivalents balance of $6.2 million and a restricted cash balance of $0.8 million as of December 31, 2017. We used $3.0 million in operating cash during the six months ended June 30, 2018 compared to $3.0 million of operating cash in the six months ended June 30, 2017. We also funded $1.8 million of capital expenditures during the six months ended June 30, 2018 compared to $0.1 million in the six months ended June 30, 2017. These capital expenditures relate primarily to our specialty ingredients' equipment in our Dillon plant and our SQF projects to certify our facilities. Offsetting these uses of cash was $5.7 million of proceeds from warrant exercises during the six months ended June 30, 2018.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under the applicable regulations of the Securities and Exchange Commission.

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Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an ongoing basis, we evaluate the estimates, including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates.

For further information about other critical accounting policies, see the discussion of critical accounting policies in Note 3 of our Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 2 in the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures.

We evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the most recently completed fiscal quarter, there have been no changes in our internal control over financial reporting 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

See Note 9 in the Notes to Unaudited Condensed Consolidated Financial Statements for information regarding certain legal proceedings to which we are a party.

We are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position, results of operations or cash flows. We record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition, liquidity or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. 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, liquidity or future results.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended June 30 2018, we issued the securities described below without registration under the Securities Act. Unless otherwise indicated below, the securities were issued pursuant to the private placement exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended. All issuances below were made without any public solicitation, to a limited number of persons and were acquired for investment purposes only.

In the three months ended June 30 2018, warrant holders exercised for cash, at $0.96 per share, warrants for the purchase of 4,092,077 shares of common stock (remaining term at December 31, 2017, of 4.1 years).

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith:

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		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Exhibit Number	Filing/Effective Date	Filed Here-with
10.1	2014 Equity Incentive Plan, as amended June 20, 2018	8-K	001-36245	10.1	June 25, 2018	
10.2	Offer Letter between the Company and Dr. Robert Smith, dated June 21, 2018			10.2	June 21, 2018	X
31.1	Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS (1)	XBRL Instance Document					X
101.SCH (1)	XBRL Taxonomy Extension Schema Document					X
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF (1)	XBRL Taxonomy Extension Calculation Definition Linkbase Document					X
101.LAB (1)	XBRL Taxonomy Extension Calculation Label Linkbase Document					X
101.PRE (1)	XBRL Taxonomy Extension Calculation Presentation Linkbase Document					X

(1) XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

Dated: August 2, 2018

/s/ Robert Smith
Robert Smith
Chief Executive
Officer

/s/ Brent Rystrom
Brent Rystrom
Chief Financial
Officer