SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Charlie's Holdings, Inc.

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _________ to _________

Commission file number 001-32420

CHARLIE'S HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	**84-1575085**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

1007 Brioso Drive, Costa Mesa, CA 92627
(Address of Principal Executive Offices)

(949) 531-6855
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[X]	Smaller reporting company	[X]
		Emerging growth company	[ ]

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

The number of shares of the registrant's common stock, par value $0.001 per share, issued and outstanding on May 13, 2020 was 18,990,752,596.

CHARLIE'S HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2020

INDEX

PART I

ITEM 1. FINANCIAL STATEMENTS

CHARLIE'S HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets:		
Cash	$ 233	$ 2,448
Accounts receivable, net	1,576	918
Inventories, net	1,639	1,516
Prepaid expense and other current assets	688	729
Total current assets	4,136	5,611
Non-current assets:		
Property, plant and equipment, net	546	543
Right-of-use asset, net	1,522	1,623
Other assets	71	71
Total non-current assets	2,139	2,237
TOTAL ASSETS	**$ 6,275**	**$ 7,848**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expense	$ 3,238	$ 2,516
Derivative liability	3,714	4,144
Lease liabilities	440	426
Deferred revenue	74	91
Total current liabilities	7,466	7,177
Non-current liabilities:		
Lease liabilities, net of current portion	1,103	1,218
Total non-current liabilities	1,103	1,218
Total liabilities	8,569	8,395
COMMITMENTS AND CONTINGENCIES (see Note 12)		
Stockholders' deficit:		
Convertible preferred stock ($0.001 par value); 1,800,000 shares authorized		
Series A, 300,000 shares designated, 204,186 and 204,561 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	-	-
Series B, 1.5 million shares designated, 0 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	-	-
Common stock ($0.001 par value); 50 billion shares authorized; 18.9 billion shares and 18.9 billion shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	18,982	18,974
Additional paid-in capital	(14,884)	(17,045)
Accumulated deficit	(6,392)	(2,476)
Total stockholders' deficit	(2,294)	(547)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	**$ 6,275**	**$ 7,848**

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

CHARLIE'S HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

	For the three months ended March 31, 2020	2019
Revenues:		
Product revenue, net	$ 4,405	$ 6,648
Total revenues	4,405	6,648
Operating costs and expense:		
Cost of goods sold - product revenue	1,963	2,750
General and administrative	4,151	1,003
Sales and marketing	419	414
Research and development	2,223	5
Total operating costs and expense	8,756	4,172
(Loss) income from operations	(4,351)	2,476
Other income:		
Change in fair value of derivative liabilities	430	-
Other income	5	-
Total other income	435	-
Net (loss) income	$ (3,916)	$ 2,476
Net (loss) earnings per share applicable to common stockholders		
Basic	$ (0.00)	$ 0.02
Diluted	$ (0.00)	$ 0.00
Weighted average shares used in computing basic earnings per share	18,973,921,000	141,041
Weighted average shares used in computing diluted earnings per share	18,973,921,000	14,104,089,000

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

CHARLIE'S HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)
(Unaudited)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par value	Shares	Par value	Shares	Par value	Capital	Deficit	Deficit
Balance at January 1, 2020	**204**	**$ -**	**-**	**$ -**	**18,973,828**	**$ 18,974**	**$ (17,045)**	**$ (2,476)**	**$ (547)**
Conversion of Series A convertible preferred stock	-	-	-	-	8,463	8	(8)	-	-
Reclassification of liability awards to equity	-	-	-	-	-	-	1,638	-	1,638
Stock based compensation	-	-	-	-	-	-	531	-	531
Net loss	-	-	-	-	-	-	-	(3,916)	(3,916)
Balance at March 31, 2020	**204**	**$ -**	**-**	**$ -**	**18,982,291**	**$ 18,982**	**$ (14,884)**	**$ (6,392)**	**$ (2,294)**

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-in	Retained	Total Stockholders'
	Shares	Par value	Shares	Par value	Shares	Par value	Capital	Earnings	Equity
Balance at January 1, 2019	**-**	**$ -**	**1,396**	**$ 1**	**141,041**	**$ 141**	**$ -**	**$ 649**	**$ 791**
Cash distributions to CCD Members	-	-	-	-	-	-	-	(979)	(979)
Net income	-	-	-	-	-	-	-	2,476	2,476
Balance at March 31, 2019	**-**	**$ -**	**1,396**	**$ 1**	**141,041**	**$ 141**	**$ -**	**$ 2,146**	**$ 2,288**

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

CHARLIE'S HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the three months ended March 31, 2020	2019
Cash Flows from Operating Activities:		
Net (loss) income	$ (3,916)	$ 2,476
Reconciliation of net (loss) income to net cash provided by operating activities:		
Allowance for doubtful accounts	134	-
Depreciation and amortization	40	4
Change in fair value of derivative liabilities	(430)	-
Amortization of operating lease right-of-use asset	101	8
Stock based compensation	1,853	-
Subtotal of non-cash charges	1,698	12
Changes in operating assets and liabilities:		
Accounts receivable	(792)	(392)
Inventories	(123)	(20)
Prepaid expense and other current assets	41	48
Accounts payable and accrued expense	1,038	(189)
Deferred revenue	(17)	4
Lease liabilities	(101)	(8)
Net cash (used in) provided by operating activities	(2,172)	1,931
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(43)	(13)
Net cash used in investing activities	(43)	(13)
Cash Flows from Financing Activities:		
Cash distributions to CCD Members	-	(979)
Net cash used in financing activities	-	(979)
Net (decrease) increase in cash	(2,215)	939
Cash, beginning of the period	2,448	304
Cash, end of the period	$ 233	$ 1,243
Supplemental disclosure of cash flow information		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities		
Conversion of Series A convertible preferred stock	$ 8	$ -
Reclassification of liability awards to equity	$ 1,638	$ -

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

CHARLIE'S HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

Charlie's Holdings, Inc., (formerly True Drinks Holdings, Inc.) a Nevada corporation, together with its wholly owned subsidiaries and consolidated variable interest entity (collectively, the "*Company*", "*we*"), currently formulates, markets and distributes branded e-cigarette liquid for use in both open and closed consumer e-cigarette and vaping systems. The Company's products are produced domestically through contract manufacturers for sale by select distributors, specialty retailers and third-party online resellers throughout the United States, as well as over 80 countries worldwide. The Company's primary international markets include the United Kingdom, Italy, Spain, Belgium, Australia, Sweden and Canada. In June 2019, The Company launched distribution, through Don Polly, a Nevada limited liability company that is owned by entities controlled by Brandon and Ryan Stump, the Company's Chief Executive Officer and Chief Operating Officer, respectively, and a consolidated variable interest for which the Company is the primary beneficiary ("*Don Polly*"), of certain premium vapor, tincture and topical products containing hemp-derived cannabidiol ("*CBD*"). Our CBD based products are produced, marketed and sold through, Don Polly, and the Company currently intends to develop and launch additional products containing hemp-derived CBD in the future.

In addition to Don Polly, we are also the holding company for two wholly-owned subsidiaries, Charlie's Chalk Dust, LLC (" *Charlie's*" or "*CCD*"), which activity includes production and sale of our branded nicotine-based e-cigarette liquid, and Bazi, Inc., which activity includes sales of all-natural energy drink Bazi® All Natural Energy. At this time, we do not intend to continue sales of the Bazi product in its current form.

Acquisition of True Drinks Holdings, Inc.

On April 26, 2019 (the "*Closing Date*"), we entered into a Securities Exchange Agreement with each of the former members (" *Members*") of Charlie's, and certain direct investors in the Company ("*Direct Investors*"), pursuant to which we acquired all outstanding membership interests of Charlie's beneficially owned by the Members in exchange for the issuance by the Company of units, with such units consisting of an aggregate of (i) 15,655,538,349 shares of common stock on an as-converted basis (which includes the issuance of an aggregate of 1,396,305 shares of a newly created class of Series B Convertible Preferred Stock, par value $0.001 per share ("*Series B Preferred*"), convertible into an aggregate of 13,963,047,716 shares of common stock, issued to certain individuals in lieu of common stock); (ii) 206,249 shares of a newly created class of Series A Convertible Preferred Stock, par value $0.001 per share ("*Series A Preferred*"), convertible into an aggregate of 4,654,349,239 shares of common stock; and (iii) warrants to purchase an aggregate of 3,102,899,493 shares of common stock (the "*Investor Warrants*") (the "*Share Exchange*"). As a result of the Share Exchange, Charlie's became a wholly owned subsidiary of the Company.

Immediately prior to, and in connection with, the Share Exchange, Charlie's consummated a private offering of membership interests that resulted in net proceeds to Charlie's of approximately $27.5 million (the "*Charlie's Financing*"). Katalyst Securities LLC ("*Katalyst*") acted as the sole placement agent in connection with the Charlie's Financing pursuant to an Engagement Letter entered into by and between Katalyst, Charlie's and the Company on February 15, 2019. As consideration for its services in connection with the Charlie's Financing and the Share Exchange, the Company issued to Katalyst and its designees five-year warrants to purchase an aggregate of 930,869,848 shares of Common Stock at a price of $0.0044313 per share (the "*Placement Agent Warrants*"). The Placement Agent Warrants have substantially the same terms as those set forth in the Investor Warrants.

The Share Exchange resulted in a change of control of the Company, with the Members and Direct Investors owning approximately 86.1% of the Company's outstanding voting securities immediately after the Share Exchange, and the Company's current stockholders beneficially owning approximately 13.9% of the issued and outstanding voting securities, which includes the Advisory Shares. Following the Share Exchange, Ryan Stump and Brandon Stump, the founders of Charlie's and the Company's Chief Executive Officer and Chief Operating Officer, respectively, held in excess of 50% of the Company's issued and outstanding voting securities.

The Share Exchange is accounted for as a reverse recapitalization in accordance with accounting principles generally accepted in the United States ("*U.S. GAAP*") because the primary assets of the Company were nominal at the consummation of the Share Exchange. Charlie's was determined to be the accounting acquirer based upon the terms of the Share Exchange and other factors including: (i) Charlie's stockholders and other persons holding securities convertible, exercisable or exchangeable directly or indirectly for Charlie's membership units now own approximately 49%, on a fully diluted basis, of the Company's outstanding securities immediately following the effective time of the Merger, (ii) individuals associated with Charlie's now hold a majority of the seats on the Company's Board of Directors and (iii) Charlie's management holds all key positions in the management of the combined Company. Accordingly, the historical financial statements of True Drinks were replaced by the Company's historical financial statements including the comparative prior periods. All references in the consolidated financial statements to the number of shares and per-share amounts of common stock have been retroactively restated to reflect the exchange rate.

Going Concern Uncertainty Regarding the Legal and Regulatory Environment, Liquidity and Management's Plan of Operation

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company operates in a rapidly changing legal and regulatory environment; new laws and regulations or changes to existing laws and regulations could significantly limit the Company's ability to sell its products, and/or result in additional costs. Additionally, the Company is required to apply for FDA approval to continue selling and marketing its products used for the vaporization of nicotine in the United States. There is significant cost associated with the application process and there can be no assurance the FDA will approve the application(s). In addition, the recent outbreak of coronavirus ("*COVID-19*") in March 2020 has had a negative impact on the global economy and markets which has impacted the Company's supply chain and sales. For the three months ended March 31, 2020, the Company has incurred losses from operations of $4,351,000 and a consolidated net loss of approximately $3,916,000, and the Company has negative stockholders' equity of $2,294,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to the carrying amount and classification of recorded assets and liabilities should the Company be unable to continue operations.

Management's plans depend on its ability to increase revenues and continue its business development efforts, including the expenditure of approximately $4,400,000 to complete the PMTA registration process. The Company does not anticipate that its current cash position will be sufficient to meet its working capital requirements, to continue its sales and marketing efforts and complete the PMTA registration process. The Company is currently seeking debt and/or equity financing in order to ensure that it have sufficient cash to operate for the next 12 months. There can be no assurance that such financing will be available on acceptable terms, or at all, and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in its best interests.

Risks and Uncertainties

The Company operates in an environment that is subject to rapid changes and developments in laws and regulations that could have a significant impact on the Company's ability to sell its products. Beginning in September 2019, certain states temporarily banned the sale of flavored e-cigarettes, and several states and municipalities are considering implementing similar restrictions. Federal, state, and local governmental bodies across the United States have indicated that flavored e-cigarette liquid, vaporization products and certain other consumption accessories may become subject to new laws and regulations at the federal, state and local levels. The application of any new laws or regulations that may be adopted in the future, at a federal, state, or local level, directly or indirectly implicating flavored e-cigarette liquid and products used for the vaporization of nicotine could significantly limit the Company's ability to sell such products, result in additional compliance expenses, and/or require the Company to change its labeling and/or methods of distribution. Any ban of the sale of flavored e-cigarettes directly limits the markets in which the Company may sell its products. In the event the prevalence of such bans and/or changes in laws and regulations increase across the United States, or internationally, the Company's business, results of operations and financial condition could be adversely impacted. In addition, the Company is presently in the process of submitting PMTA applications for some of its nicotine-based e-liquid products. The applications are due in September 2020, which if approved, will allow the Company to continue to sell its products in the United States. This application deadline was previously May 2020 and recently has been extended and there is no assurance that there will not be further extensions. The Company is also seeking additional financing in order to complete the application process. There is no assurance that regulatory approval to sell our products will be granted or that we can raise the additional financing required, and if not, this could have a significant impact on our sales.

On March 11, 2020, the World Health Organization designated the ongoing and evolving COVID-19 outbreak as a pandemic. The outbreak has caused substantial disruption in international and U.S. economies and markets as it continues to spread. The outbreak is having a temporary adverse impact on our industry as well as our business, with regards to certain supply chain disruptions and sales volume. While the disruption from COVID-19 is currently expected to be temporary, there is uncertainty around the duration. The financial impact from COVID-19 on our business cannot be reasonably estimated at this time, however recent sales activity has shown a decline in sales of our CBD products and, if disruptions from the COVID-19 outbreak are prolonged, it will continue to have an adverse impact on our business.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "*SEC*"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented in this Quarterly Report on Form 10-Q (this "*Report*") not misleading.

Amounts related to disclosure of December 31, 2019 balances within the interim condensed consolidated financial statements were derived from audited financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2019. The financial information contained in the consolidated financial statements and footnotes are based on Charlie's historical financial statements and the Company's financial activity beginning April 26, 2019, as adjusted, to give effect to Charlie's reverse recapitalization of the Company and the Charlie's Financing completed prior to the Share Exchange. In addition, from the period April 26, 2019 until December 31, 2019, there were minimal costs and revenue associated with the Bazi product line which are included in the interim condensed consolidated financial statements. As noted above, we do not intend to continue to produce and sell the Bazi product line in its current form, and these costs and expenses are nominal and will continue to be so in the future. The operating results of Don Polly are also included.

Historical financial information presented prior to April 26, 2019 is that of Charlie's only, while financial information presented after April 26, 2019 includes Charlie's, Don Polly, Bazi Drinks and the Company, which includes the transactions associated with the share exchange and private placement transaction along with ongoing corporate costs.

Use of Estimates

The preparation of 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 dates of the financial statements and the reported amounts of revenues and expense during the reporting periods. Actual results could differ from those estimates.

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies to those previously disclosed in the 2019 Annual Report.

Recent Accounting Standards Not Yet Adopted

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (" *ASU 2019-12*"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

NOTE 3 – FAIR VALUE MEASUREMENTS

In accordance with ASC 820 (Fair Value Measurements and Disclosures), the Company uses various inputs to measure the outstanding warrants on a recurring basis to determine the fair value of the liability. ASC 820 also establishes a hierarchy categorizing inputs into three levels used to measure and disclose fair value. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to unobservable inputs. An explanation of each level in the hierarchy is described below:

Level 1 - Unadjusted quoted prices in active markets for identical instruments that are accessible by the Company on the measurement date.

Level 2 - Quoted prices in markets that are not active or inputs which are either directly or indirectly observable.

Level 3 - Unobservable inputs for the instrument requiring the development of assumptions by the Company.

The following table classifies the Company's liabilities measured at fair value on a recurring basis into the fair value hierarchy as of March 31, 2020 and December 31, 2019 (amount in thousands):

	Fair Value at March 31, 2020			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Derivative liability - Warrants	3,714	-	-	3,714
Total liabilities	$ 3,714	$ -	$ -	$ 3,714

	Fair Value at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Derivative liability - Warrants	4,144	-	-	4,144
Total liabilities	$ 4,144	$ -	$ -	$ 4,144

There were no transfers between Level 1, 2 or 3 during the three-month period ended March 31, 2020.

The following table presents changes in Level 3 liabilities measured at fair value for the three-month period ended March 31, 2020. Both observable and unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long- dated volatilities) inputs (amount in thousands).

	Derivative liability - Warrants
Balance at January 1, 2020	$ 4,144
Change in fair value	(430)
Balance at March 31, 2020	$ 3,714

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in the Monte Carlo simulation measuring the Company's derivative liabilities that are categorized within Level 3 of the fair value hierarchy as of March 31, 2020 and December 31, 2019 is as follows:

	March 31, 2020	December 31, 2019
Exercise price	$ 0.0044	$ 0.0044
Contractual term (years)	4.07	4.32
Volatility (annual)	75.0%	70.0%
Risk-free rate	0.3%	1.7%
Dividend yield (per share)	0%	0%

NOTE 4 – STOCK-BASED COMPENSATION

On April 26, 2019, in connection with employment agreements with its Chief Executive Officer and Chief Operating Officer, the Company issued market condition awards contingent upon the achievement of certain market capitalization targets. The awards are subject to a three-year service vesting period. The awards are settleable in a variable number of common shares based on defined percentages of the Company's total shares determined by market capitalization targets and are, therefore, classified as liabilities in accordance with ASC 718. The fair value of the awards is remeasured at each reporting period until settlement. Compensation cost is attributed over the period encompassing the derived service period and the explicit service period. The fair value of the market condition awards on the termination date of February 12, 2020was approximately $1,638,000. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 1.44% and a volatility of 75% based on volatility over 3 years using daily stock prices. For the three months ended March 31, 2020, the Company recorded an expense of $1,321,700for these awards. In addition, as these market awards were eliminated during the first quarter of 2020 (see paragraph below), the Company reversed the entire compensation liability of $1,638,000 to Additional Paid In Capital during the quarter ended March 31, 2020.

On February 12, 2020, the Company, entered into a form of Amended and Restated Employment Agreement with both the Company's Chief Executive Officer and Chief Operating Officer. The terms of the Amended Employment Agreements have been amended as follows: (i) the annual equity awards based upon, among other conditions, the Company's market capitalization and a percentage of base salary have been eliminated; however, the awards based on financial milestones remain in full force and effect; and (ii) payment of the 2019 bonuses has been deferred, resulting in the accrual of such bonuses on the books and records of the Company. All other terms of the respective Employment Agreements will remain in full force and effect subject to further review by the Board as it deems necessary and appropriate.

On April 26, 2019, as additional consideration for advisory services provided in connection with the Charlie's Financing and the Share Exchange (see Note 1 above), the Company issued an aggregate of 902.7 million shares of common stock (the "*Advisory Shares*"), including to a member of the Company's Board of Directors, pursuant to a subscription agreement. The fair value of a share of common stock was $0.0032 which is based upon a valuation prepared by the Company on the date of the Share Exchange. The Company recorded stock-based compensation of approximately $2.9 million on the grant date.

Prior to the Share Exchange, Charlie's employees held Member units, which were automatically converted into 7.1 million shares of common stock and 69,815 shares of Series B Preferred (or 698.1 million shares of common stock equivalents) due to the effect of the Share Exchange. The 705.3 million shares of common stock will vest over a two-year period. The fair value of a share of common stock was $0.0032 based upon a valuation prepared by the Company on the date of the Share Exchange. The Company recorded stock-based compensation of approximately $282,082 during the three months ended March 31, 2020.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and Equipment detail as of March 31, 2020 and December 31, 2019 are as follows (amount in thousands):

	March 31, 2020	December 31, 2019	Estimated Useful Life
Machinery and equipment	$ 96	$ 96	5 years
Trade show booth	171	171	5 years
Office equipment	161	118	5 years
Leasehold improvements	440	440	Lesser of lease term or estimated useful life
	868	825	
Accumulated depreciation	(322)	(282)	
	$ 546	$ 543	

Depreciation and amortization expense totaled $40,500 and $3,600, respectively, during the three months ended March 31, 2020 and 2019.

NOTE 6 - CONCENTRATIONS

Vendors

The Company's concentration of purchases are as follows:

	For the three months ended March 31,	
	2020	2019
Vendor A	31%	79%
Vendor B	20%	0%
Vendor C	15%	0%
Vendor D	12%	12%

During the three months ended March 31, 2020, purchases from four vendors represented 78% of total inventory purchases. During the three months ended March 31, 2019, purchases from four vendors represented 91% of total inventory purchases.

As of March 31, 2020, and December 31, 2019, amounts owed to these vendors totaled $1,172,500 and $68,000 respectively, which are included in accounts payable in the accompanying condensed consolidated balance sheets.

Accounts Receivable

The Company's concentration of accounts receivable are as follows:

	March 31, 2020	December 31, 2019
Customer A	7%	23%

No customer made up more than 10% of accounts receivable at March 31, 2020. Customer A owed the Company a total of $109,600, representing 7% of net receivables. One customer made up more than 10% of net accounts receivable at December 31, 2019. Customer A owed the Company a total of $211,000, representing 23% of net receivables. No customer exceeded 10% of total net sales for the three-month periods ended March 31, 2020 and March 31, 2019, respectively.

NOTE 7 – DON POLLY, LLC.

Don Polly, LLC is a Nevada limited liability company that is owned by entities controlled by Brandon and Ryan Stump, the Company's Chief Executive Officer and Chief Operating Officer, respectively, and a consolidated variable interest for which the Company is the primary beneficiary. Don Polly formulates, sells and distributes the Company's CBD product lines.

We evaluate our ownership, contractual and other interests in entities that are not wholly-owned to determine if these entities are variable interest entities ("*VIEs*"), and, if so, whether we are the primary beneficiary of the VIE. In determining whether we are the primary beneficiary of a VIE and therefore required to consolidate the VIE, we apply a qualitative approach that determines whether we have both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of, or the rights to receive benefits from, the VIE that could potentially be significant to that VIE. We continuously perform this assessment, as changes to existing relationships or future transactions may result in the consolidation or deconsolidation of a VIE. Effective April 25, 2019, we consolidated the financial statements of Don Polly and it is considered a VIE of the Company. Since the Company has been determined to be the primary beneficiary of Don Polly, we have included Don Polly's assets, liabilities, and operations in the accompanying consolidated financial statements of the Company.

Don Polly operates under exclusive licensing and service contracts with the Company whereby the Company receives 75% of net income from the licensing agreement and 25% of net income from the service agreement, therefore, as the Company receives 100% of the net income or incurs 100% of the net loss of the VIE, no non-controlling interests are recorded.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expense as of March 31, 2020 and December 31, 2019 are as follows (amounts in thousands):

	March 31, 2020	December 31, 2019
Accounts payable	$ 1,638	$ 673
Accrued compensation	1,360	1,635
Other accrued expense	240	208
	$ 3,238	$ 2,516

NOTE 9 – EARNINGS (LOSS) PER SHARE APPLICABLE TO COMMON STOCKHOLDERS

Basic earnings (loss) per common share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per common share is computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Diluted weighted average common shares include common stock potentially issuable under the Company's preferred stock, warrants and vested and unvested stock options.

The following table sets forth the computation of earnings per share for the three months ended March 31, 2020 and 2019, respectively (amounts in thousands except per share data):

	For the three months ended March 31,	
	2020	2019
Net (loss) earnings - basic	$ (3,916)	$ 2,476
Net (loss) earnings - diluted	$ (3,916)	$ 2,476
Weighted average shares outstanding - basic	18,973,921,000	141,041,000
Series B convertible preferred shares	-	13,963,048,000
Weighted average shares outstanding - diluted	18,973,921,000	14,104,089,000

The following securities were not included in the diluted net earnings per share calculation because their effect was anti-dilutive as of the periods presented (in thousands):

	For the three months ended March 31,	
	2020	2019
Options	801,325	70,625
Series A convertible preferred stock	5,572,758	-
Warrants	4,033,769	-
Total	10,407,852	70,625

NOTE 10 – STOCKHOLDERS' EQUITY

Conversion of Series A Preferred Shares

For the three months ended March 31, 2020, the Company issued approximately 8,462,528 in common stock upon conversion shares as 375 shares of Series A Convertible Preferred Stock ("*Series A Preferred*").

NOTE 11 – STOCK OPTIONS

The True Drinks Holdings, Inc. 2013 Stock Incentive Plan (the " *Prior Plan*") was first approved in December 2013 and was approved by a majority of the stockholders in October 2014. The Prior Plan originally authorized 20.0 million shares of common stock for issuance as equity-based awards, which amount was increased to 120.0 million in January 2018 by authorization of the Board of Directors at that time (the "*Prior Plan Amendment*"). As of the date of the Share Exchange, April 26, 2019, a total of approximately 91.7 million awards were issued under the Prior Plan and the Prior Plan Amendment, consisting entirely of outstanding stock options. As of March 31, 2020, approximately 61.8 million of these stock options remain vested and exercisable under this plan.

The Company will not grant any additional awards or shares of common stock under the Prior Plan beyond those that are currently outstanding.

On May 8, 2019, our Board of Directors approved the Charlie's Holdings, Inc. 2019 Omnibus Incentive Plan (the " *2019 Plan*"), and the 2019 Plan was subsequently approved by holders of a majority of our outstanding voting securities on the same date. The 2019 Plan will supersede and replace the Prior Plan and no new awards will be granted under the Prior Plan. Any awards outstanding under the Prior Plan on the date of stockholder approval of the 2019 Plan will remain subject to and be paid under the Prior Plan, including those granted under the Prior Plan Amendment, and any shares subject to outstanding awards under the Prior Plan that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares will automatically become available for issuance under the 2019 Plan. Up to 1,107,254,205 shares of common stock may be granted under the 2019 Plan. The shares of common stock issuable under the 2019 Plan will consist of authorized and unissued shares, treasury shares, and shares purchased on the open market or otherwise.

As of March 31, 2020, there was approximately $ 715,700 of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the 2019 Plan. That cost is expected to be recognized over a weighted average period of 2.5 years. For the three months ended March 31, 2020, the Company recorded compensation expense of $249,200 related to the issuance of stock options.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space under agreements classified as operating leases that expire on various dates through 2024. All of the Company's lease liabilities result from the lease of its headquarters in Costa Mesa, California, which expires in 2024, its warehouse in Santa Ana, California, which expires in 2021, its office and warehouse in Denver, Colorado, which expires in 2022, and its warehouse space in Huntington Beach, California, which expires in 2022. Such leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Certain of the Company's leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right of use assets as the Company is not reasonably certain to exercise the options. Variable expenses generally represent the Company's share of the landlord's operating expenses. The Company does not act as a lessor or have any leases classified as financing leases.

The Company excludes short-term leases having initial terms of 12 months or less from Topic 842 as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term. The Company entered into a commercial lease for the Company's corporate headquarters (the " *Lease*") in Costa Mesa, California with Brandon Stump, Ryan Stump and Keith Stump, the Company's Chief Executive Officer, Chief Operating Officer and member of the Board. Messrs. Stump, Stump and Stump purchased the property that is the subject of the Lease in July 2019. The Lease, which was effective as of September 1, 2019, on a month to month basis, has been formalized to have a term of five years and a base rent rate of $22,940 per month, which rate is subject to annual adjustments based on the consumer price index, as may be mutually agreed upon by the parties to the Lease. The terms of the Lease were negotiated and approved by the independent members of the Board, and executed by Mr. David Allen, the Company's Chief Financial Officer after reviewing a detailed analysis of comparable properties and rent rates compiled by an independent, third-party consultant. The total amount paid to related parties for the three months ended March 31, 2020 is $68,820.

At March 31, 2020, the Company had operating lease liabilities of approximately $1,543,000 and right of use assets of approximately $1,522,000, which were included in the consolidated balance sheet.

The following summarizes quantitative information about the Company's operating leases for the three months ended March 31, 2020 and 2019 (amount in thousands):

	For the three months ended March 31,	
	2020	2019
Operating leases		
Operating lease cost	$ 149	$ 10
Variable lease cost	-	-
Operating lease expense	149	10
Short-term lease rent expense	-	-
Total rent expense	$ 149	$ 10

	For the three months ended March 31,	
	2020	2019
Operating cash flows from operating leases	$ 101	$ 8
Weighted-average remaining lease term – operating leases (in years)	3.6	2.0
Weighted-average discount rate – operating leases	12.0%	12.0%

Maturities of our operating leases as of March 31, 2020, excluding short-term leases, are as follows:

Remaining months ended December 31, 2020	$ 499
Year Ended December 31, 2021	577
Year Ended December 31, 2022	399
Year Ended December 31, 2023	275
Year Ended December 31, 2024	207
Total	1,957
Less present value discount	(414)
Operating lease liabilities as of March 31, 2020	$ 1,543

Legal Proceedings

From time to time, the Company may be involved in various claims and counterclaims and legal actions arising in the ordinary course of business. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

C.H. Robinson Worldwide, Inc. v. True Drinks, Inc. On September 5, 2018, C.H. Robinson Worldwide (" *Robinson*") filed a complaint against True Drinks, Inc. in the California Superior Court for the County of Orange located in Santa Ana, California alleging open book account, account stated, reasonable value of services received, agreement, and unjust enrichment related to shipping services provided by Robinson. Robinson has asserted $121,743 in damages plus interest, attorney's fees and costs. We believe Robinson's claim is substantially offset by damages caused by its failures to timely deliver products it was supposed to ship and intend to vigorously defend the complaint. The probability of any loss cannot be determined at this time.

NOTE 13- SUBSEQUENT EVENTS

The Company has evaluated events subsequent to March 31, 2020 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through the date these financial statements were available to be issued. Based upon this evaluation the following items were noted.

On April 1, 2020, the Company, Charlie's and its variable interest entity, Don Polly, issued a secured promissory note (the " *Note*") to one of the Company's largest stockholders, Red Beard Holdings, LLC (the "*Lender*") in the principal amount of $750,000, which Note is secured by all assets of the Company pursuant to the terms of a Security Agreement entered into by and between the Company and the Lender (the "*Note Financing*").

The Note requires the payment of principal and guaranteed interest in the amount of at least $75,000 on or before the earlier date of (i) a Liquidity Event, as defined under the terms of the Note; or (ii) October 1, 2020. The Company intends to use the proceeds from the Note Financing for general corporate purposes, and its working capital requirements, pending availability of long-term working capital.

On April 30, 2020, Charlie's, a wholly owned subsidiary of the Company, received approval to enter into a U.S. Small Business Administration (" *SBA*") Promissory Note (the "*PPP Loan*") with TBK Bank, SSB (the " *SBA Lender*"), pursuant to the Paycheck Protection Program (" *PPP*") of the Coronavirus Aid, Relief, and Economic Security Act (the "*CARES Act*") as administered by the SBA (the " *Loan Agreement*").

The PPP Loan provides for working capital to CCD in the amount of $650,761. The PPP Loan will mature on April 30, 2022 and will accrue interest at a rate of 1.00% per annum. Payments of principal and interest will be deferred for six months from the date of the PPP Loan, or until November 30, 2020. Interest, however, will continue to accrue during this time.

On April 14, 2020, Don Polly, a related company, which is consolidated as a Variable Interest Entity ("*VIE*") of the Company, also obtained a PPP Loan from Community Banks of Colorado, a division of NBH Bank (the "*Polly Lender*"). The PPP Loan obtained by Don Polly provides for working capital to Don Polly in the amount of $215,600. The PPP Loan will mature on April 14, 2022 and will accrue interest at a rate of 1.00% per annum. Payments of principal and interest will be deferred for six months from the date of the PPP Loan, or until November 14, 2020. Interest, however, will continue to accrue during this time.

The aforementioned PPP Loans were made under the PPP enacted by Congress under the CARES Act. The CARES Act (including the guidance issued by SBA and U.S. Department of the Treasury) provides that all or a portion of the PPP Loans may be forgiven upon request from the Company to the SBA Lender or the Polly Lender, as the case may be, subject to requirements in the PPP Loans and under the CARES Act.

On April 25, 2020, the Company was required to pay a one-time dividend equal to eight percent (8%) of the stated value of its Series A Preferred, equal to $1,650,000 ("*Dividend Amount*"), which Dividend Amount was required to be paid in cash on or before April 25, 2020. The Company failed to pay the required dividend and has requested that holders of more than 50% of the Series A Preferred issued and outstanding ("*Required Holders*") consent to an amendment to the Series A Preferred to allow the Company to pay such Dividend Amount in shares of the Company's common stock.

On May 8, 2020, the Company issued approximately 8,462,528 shares of common stock upon conversion of 375 shares of Series A Preferred (not related to the shares described in Note 10 above).

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

The following discussion of the financial condition and results of operations of Charlie's Holdings, Inc. should be read in conjunction with the financial statements and the notes to those statements appearing elsewhere in this Quarterly Report on Form 10-Q (this "Report"). Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section in this Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

As used in this Report, unless otherwise stated or the context otherwise requires, references to the "Company", "we", "us", "our", or similar references mean Charlie's Holdings, Inc. (formerly True Drinks Holdings, Inc.), its subsidiaries and consolidated variable interest entity on a consolidated basis. References to "Charlie's" and "CCD" refer to Charlie's Chalk Dust, LLC, a California limited liability company and wholly-owned subsidiary of the Company, and "Don Polly" refers to Don Polly, LLC, a Nevada limited liability company that is owned by entities controlled by Brandon and Ryan Stump, the Company's Chief Executive Officer and Chief Operating Officer, respectively, and a consolidated variable interest for which the Company is the primary beneficiary.

Overview

Our objective is to become a significant leader in the rapidly growing, global e-cigarette segment of the broader nicotine related products industry. Through Charlie's, we formulate, market and distribute branded e-cigarette liquid for use in both open and closed nicotine-only e-cigarette and vaping systems. Charlie's products are produced domestically through contract manufacturers for sale through select distributors, specialty retailers and third-party online resellers throughout the United States, as well as more than 80 countries worldwide. Charlie's primary international markets include the United Kingdom, Italy, Spain, Belgium, Australia, Sweden and Canada. In June 2019, we launched distribution, through Don Polly, of certain premium vapor, tincture and topical wellness products containing hemp-derived cannabidiol ("*CBD*") and we currently intend to develop and launch additional products containing hemp-derived CBD in the future.

Recently there have been significant news stories and health alerts related to flavored nicotine vaping, leading to some states banning the sale of flavored nicotine products and causing the Food and Drug Administration ("*FDA*") to review its policies on controlling the sale of these products. The most recent health related concerns seem to indicate that a vitamin E acetate related compound may be causing the health issues. On November 8, 2019, officials at the Centers for Disease Control and Prevention ("*CDC*") reported a breakthrough in the investigation into the outbreak of vaping-related lung injuries. T he CDC's principal deputy director, Dr. Anne Schuchat, stated that "vitamin E acetate is a known additive used to dilute liquid in e-cigarettes or vaping products that contain THC", suggesting the possible culprit for the series of lung injuries across the U.S. A ll of Charlie's nicotine-only, e-liquid products are tested by third party laboratories which have confirmed that none of our products contain any vitamin E acetate or Tetrahydrocannabinol (" *THC*").

However, these developments have had a negative effect on our sales since mid-September 2019 (see further discussion below) and therefore, in response to these developments and while government regulators are formulating future polices management has adopted the following plan of operation.

First, we plan to focus on increasing the sales of our CBD related products, including topicals, tinctures and vaping liquids. We feel there is a significant upside in the CBD space, and we have begun to focus on numerous vertical markets for the sale of our isolate, full and broad-spectrum products. These vertical markets include, but aren't limited to the medical and wellness markets. In addition, we have begun conversations with various companies and organizations that, if successful, will allow us to significantly expand our marketing and distribution reach.

Secondly, we see a significant opportunity for sales growth in international markets for nicotine e-liquids. Presently, approximately 25% of our e-liquid product sales come from the international market and we are well positioned to increase those sales in the countries that we presently sell, and in additional overseas markets, as we have already built an international distribution platform.

Lastly, we feel that the nicotine based flavored vaping products will continue to be a significant growth opportunity, once all the rightful regulatory changes have been made. We will continue with our plan to obtain marketing authorization for certain of our products through the submission of a Premarket Tobacco Application ("*PMTA*"), which is due in September 2020. We expect the cost associated with the preparation and submission of these PMTAs will be approximately $4.4 million in total. In addition, we are evaluating the potential returns associated with obtaining marketing authorization for our other nicotine based vaping products after the September 2020 deadline. We feel that a significant amount of our competitors will not have the resources and/or expertise to complete the extensive and costly PMTA process and that once complete, we will be able to benefit from being one of only a select group of companies operating in the flavored nicotine product space.

Risks and Uncertainties

The Company operates in an environment that is subject to rapid changes and developments in laws and regulations that could have a significant impact on the Company's ability to sell its products. Federal, state, and local governmental bodies across the United States have indicated that flavored e-cigarette liquid, vaporization products and certain other consumption accessories may become subject to new laws and regulations at the federal, state and local levels. Beginning in September 2019, certain states temporarily banned the sale of flavored e-cigarettes, and on January 2, 2020, the FDA issued an enforcement policy effectively banning the sale of flavored cartridge-based e-cigarettes marketed primarily by large manufacturers without prior authorization from the FDA. The application of any new laws or regulations that may be adopted in the future, at a federal, state, or local level, directly or indirectly implicating flavored e-cigarette liquid and products used for the vaporization of nicotine could significantly limit the Company's ability to sell such products, result in additional compliance expenses, and/or require the Company to change its labeling and/or methods of distribution. Any ban of the sale of flavored e-cigarettes directly limits the markets in which the Company may sell its products. In the event the prevalence of such bans and/or changes in laws and regulations increase across the United States, or internationally, the Company's business, results of operations and financial condition could be adversely impacted. In addition, the Company is presently in the process of submitting PMTA applications for some of its nicotine-based e-liquid products. The applications are due in September 2020, which if approved, will allow the Company to continue to sell its products in the United States. This application deadline was previously May 2020 and recently has been extended and there is no assurance that there will not be further extensions. The Company is also seeking additional financing to complete the application process. There is no assurance that regulatory approval to sell our products will be granted or that we can raise the additional financing required, and if not, this could have a material adverse effect on our sales.

On March 11, 2020, the World Health Organization designated the ongoing and evolving coronavirus (" *COVID-19*") outbreak as a pandemic. The outbreak has caused substantial disruption in international and U.S. economies and markets as it continues to spread. The outbreak is having a temporary adverse impact on our industry as well as our business with regards to certain supply chain disruptions and sales volume. While the disruption from COVID-19 is currently expected to be temporary, there is uncertainty around the duration. The financial impact from COVID-19 on our business cannot be reasonably estimated at this time, however recent sales activity has shown a decline in sales of CBD products and, if disruptions from the COVID-19 outbreak are prolonged, it will continue to have an adverse impact on our business.

Current Operating Trends and Financial Highlights

Management currently considers the following events, trends and uncertainties to be important in understanding the Company's results of operations and financial condition for the most recent calendar quarter and full year:

Regarding results from operations for the quarter ended March 31, 2020, we generated revenue of approximately $4,405,000, as compared to revenue of $6,648,000 for the three months ended March 31, 2019. This $2,243,000 decrease in revenue was due primarily to an $3,120,000 decrease in sales of our nicotine-based products, offset by $877,000 of sales from our CBD based products, which were introduced in June of 2019.

We generated a net loss for the three months ended March 31, 2020 of approximately $3,916,000, as compared to net income of approximately $2,476,000 for the three months ended March 31, 2019. The net loss for the three months ended March 31, 2020 includes non-cash stock-based compensation expense of approximately $1,853,000 offset by a non-cash gain in fair value of derivative liabilities of $430,000. In addition, the Company expensed $2,223,000 of consulting fees for the three months ended March 31, 2020 as a result of the PMTA registration process.

A review of the three month period ended March 31, 2020 follows:

Basis of Presentation

The unaudited interim condensed consolidated financial statements contained elsewhere in this Report and the disclosure in this Management's Discussion and Analysis of Financial Condition and Results of Operations have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "*SEC*"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("*U.S. GAAP*") have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented in this Report not misleading.

Amounts related to disclosure of December 31, 2019 balances within the interim condensed consolidated financial statements were derived from audited financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2019. In the opinion of the Company, all adjustments, including normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows of the Company for the interim period have been included. The results of operations for the interim period are not necessarily indicative of the results for any subsequent interim period or for the full year.

The Share Exchange is accounted for as a reverse recapitalization under U.S. GAAP because the primary assets of the Company were nominal following the close of the Share Exchange. Charlie's was determined to be the accounting acquirer based upon the terms of the Share Exchange and other factors including: (i) Charlie's stockholders and other persons holding securities convertible, exercisable or exchangeable directly or indirectly for Charlie's membership units now own approximately 49%, on a fully diluted basis, of the Company's outstanding securities immediately following the effective time of the Share Exchange, (ii) individuals associated with Charlie's now hold a majority of the seats on the Company's Board of Directors and (iii) Charlie's management holds all key positions in the management of the combined Company.

The disclosure in this Report, including the unaudited condensed consolidated financial statements contained herein, are based on Charlie's historical financial statements and the Company's financial activity beginning April 26, 2019, as adjusted, to give effect to Charlie's reverse recapitalization of the Company and the Charlie's Financing. In addition, from the period April 26, 2019 until March 2020, there were minimal costs and revenue associated with the Bazi product line which are included in the consolidated financial statements. We do not intend to continue to produce and sell the Bazi product line, and these costs and expenses are nominal and will continue to be so in the future. The operating results of Don Polly for the three months ended March 31, 2020 are also included.

Historical financial information presented prior to April 26, 2019 is that of Charlie's only, while financial information presented after April 26, 2019 includes Charlie's, Don Polly, Bazi Drinks and the Company, which includes the transactions associated with the Share Exchange and Charlie's Financing completed prior to the Share Exchange, along with ongoing corporate costs.

Results of Operations for the Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019.

	For the three months ended March 31,		Change	
	2020	2019	Amount	Percentage
($ in thousands)				
Revenues:				
Product revenue, net	$ 4,405	$ 6,648	$ (2,243)	-34%
Total revenues	4,405	6,648	(2,243)	-34%
Operating costs and expense:				
Cost of goods sold - product revenue	1,963	2,750	(787)	-29%
General and administrative	4,151	1,003	3,148	314%
Sales and marketing	419	414	5	1%
Research and development	2,223	5	2,218	44360%
Total operating costs and expense	8,756	4,172	4,584	110%
(Loss) income from operations	(4,351)	2,476	(6,827)	-276%
Other income:				
Change in fair value of derivative liabilities	430	-	430	100%
Other income	5	-	5	100%
Total other income	435	-	435	100%
Net (loss) income	**$ (3,916)**	**$ 2,476**	**$ (6,392)**	**-258%**

Revenue

Revenue for the three months ended March 31, 2020 decreased approximately $2,243,000 or 33.7%, to approximately $4,405,000, as compared to approximately $6,648,000 for same period in 2019 due to a $3,120,000 decrease in our nicotine-based product sales, offset by the addition of sales from our CBD wellness products business of $877,000. The decrease in sales in our nicotine based e-liquid flavor sales is directly related to the current regulatory and health related news stories surrounding the vaping industry. The nicotine based e-liquid sales decline began late in the quarter ended September 30, 2019 and we expect sales in future quarters to be affected until the regulatory environment becomes clear. In addition, in late February 2020, sales of our CBD wellness products began to experience a decrease as the effects of the global COVID-19 pandemic caused disruptions in the global economy, however, we did not see a material decrease in our nicotine based e-liquid products.

Cost of Revenue

Cost of revenue, which consists of direct costs of materials, direct labor, third party subcontractor services, and other overhead costs decreased approximately $787,000, or 28.6%, to approximately $1,963,000, or 44.6% of revenue, for the three months ended March 31, 2020, as compared to approximately $2,750,000, or 41.4% of revenue, for the same period in 2019. This 3.2% percent increase in the cost of revenue is due to an increase in the sales mix to distributors and retailers participating in volume incentive programs, a higher provision for returns and lower fixed cost absorption, but was slightly offset by relatively stable manufacturing costs.

General and Administrative Expenses

For the three months ended March 31, 2020, total general and administrative expense increased approximately $3,148,000 to $4,151,000 as compared to approximately $1,003,000 for the same period in 2019. Costs relating to the completion of our share exchange on April 26, 2019 accounted for part of the $3.1 million increase, including $1,853,000 of non-cash stock-based compensation expense. The remaining $1.3 million is primarily due to professional fees and increased salaries associated with conducting business as a public company and certain step-up costs related to new business activities, including the launch of our CBD business. For the three months ended March 31, 2020, General and Administrative expense included the salaries of our CEO and COO, a total of approximately $250,000, which was not included in the same period in 2019, as the Company was a privately held limited liability company and the owners relied on equity distributions rather than salaries.

Sales and Marketing Expense

For the three months ended March 31, 2020, total sales and marketing expense increased approximately $5,000, or 1.2%, to approximately $419,000 as compared to approximately $414,000 for the same period in 2019, which was primarily due to higher commissions paid for new customer acquisition and enhanced marketing efforts for our CBD business.

Research and Development Expense

For the three months ended March 31, 2020, total research and development expense increased approximately $2,218,000, to approximately $2,223,000 as compared to approximately $5,000 for the same period in 2019, which was primarily due to incurring costs associated with our PMTA registrations.

Income (Loss) from Operations

We had operating losses of approximately $4,351,000 for the three months ended March 31, 2020, due primarily to a $3,148,000 million increase in general and administrative expense as we grow the business, a $2,218,000 increase in research and development expense related to the PMTA registration of some of our products and a decline in our nicotine-based product sales of $3,120,000 as compared to the same period in 2019, offset by an increase in sales from our CBD products business of $877,000. For the three months ended March 31, 2019, we had operating income of approximately $2,476,000 from our branded nicotine-based e-cigarette liquid business. Net (loss) Income is determined by adjusting income from operations by the following items:

Gain in Fair Value of Derivative Liabilities

For the three months ended March 31, 2020 and 2019, the gain in fair value of derivative liabilities was $430,000 and $0, respectively. The derivative liability is associated with the issuance of the Investor Warrants and the Placement Agent Warrants in connection with the Share Exchange and the gain for the quarter ended March 31, 2020 reflects the effect of the change in stock price on the liability associated with the issuance of these warrants. There were no warrants outstanding on March 31, 2019.

Net Income

For the three months ended March 31, 2020, we had a net loss of $3,916,000 as compared to net income of $2,476,000 for the same period in 2019.

Effects of Inflation

Inflation has not had a material impact on our business.

Liquidity and Capital Resources

As of March 31, 2020, we had negative working capital of approximately $3,330,000, which consisted of current assets of approximately $4,136,000 and current liabilities of approximately $7,466,000. This compares to negative working capital of approximately $1,566,000 at December 31, 2019. The current liabilities, as presented in the balance sheet at March 31, 2020 included elsewhere in this Quarterly Report on Form 10-Q, primarily include approximately $3,238,000 of accounts payable and accrued expense, approximately $74,000 of deferred revenue associated with product shipped but not yet received by customers, approximately $1,543,000 of lease liabilities and $3,714,000 of derivative liability associated with the Member Warrants. (the derivative liability of $3,714,000 is included in determining the negative working capital of $3,330,000 but is not expected to use any cash to ultimately satisfy the liability). In addition, the effect of the COVID-19 pandemic may have a negative impact on our liquidity and capital reserves.

Our cash and cash equivalents balance at March 31, 2020 was approximately $233,000.

For the three months ended March 31, 2020 we used cash from operations of $2,172,000, as compared to generating cash of $1,931,000 for the same period in 2019. This decline in the cash generated from operations is due primarily to an increase in accounts receivable, inventories and prepaid expense.

For the three months ended March 31, 2020 we used cash for investment activities of $43,000 as compared to $13,000 for the same period in 2019. The cash used for investment activities is primarily for the development and configuration phase of enterprise resource planning software being implemented during the period ended March 31, 2020.

For the three months ended March 31, 2020 there was no cash used or generated from financing activities, as compared to a use of cash of $979,000 for the same period in 2019. In the 2019 period, we used cash from financing activities for Member distributions to the former Members of Charlie's. The Charlie's Member distributions were all prior to or part of the Share Exchange and no further distributions will be made as Charlie's is now a wholly-owned subsidiary of the Company.

Going Concern Uncertainty Regarding the Legal and Regulatory Environment, Liquidity and Management's plan of operation.

Our financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company operates in a rapidly changing legal and regulatory environment; new laws and regulations or changes to existing laws and regulations could significantly limit the Company's ability to sell its products, and/or result in additional costs. Additionally, the Company is required to apply for FDA approval to continue selling and marketing its products used for the vaporization of nicotine in the United States. There is significant cost associated with the application process and there can be no assurance the FDA will approve the application(s). In addition, the recent outbreak of COVID-19 in March 2020 has had a negative impact on the global economy and markets has negatively impacted the Company's supply chain and sales. For the three months ended March 31, 2020, the Company has incurred losses from operations of $4,351,000 and a consolidated net loss of approximately $3,916,000 and the Company has negative stockholders' equity of $2,294,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to the carrying amount and classification of recorded assets and liabilities should the Company be unable to continue operations.

Our plans and growth depend on our ability to increase revenues and continue our business development efforts, including the expenditure of approximately $4,400,000 to complete our PMTA registration process. We currently do not anticipate that our current cash position will be sufficient to meet our working capital requirements, to continue our sales and marketing efforts and complete the PMTA registration process. We are currently seeking term debt or other sources of financing in order to ensure that we have sufficient cash to operate for the next 12 months. If in the future our plans or assumptions change or prove to be inaccurate, or there is a significant change in the regulatory environment or the recent outbreak of COVID-19 continues to impact the global economy, we will need to raise additional funds through public or private debt or equity offerings, financings, corporate collaborations, or other means. There can be no assurance that such financing will be available on acceptable terms, or at all, and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in our best interests.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than operating lease commitments.

Critical Accounting Policies

The condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which require the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of expense in the periods presented. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, due to inherent uncertainties in making estimates, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The critical accounting estimates that affect the consolidated financial statements and the judgments and assumptions used are consistent with those described under Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*") as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2020, our disclosure controls and procedures are not designed at a reasonable assurance level and are not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

During the quarter and three months ended March 31, 2020, the Company took additional measures towards remediating the material weaknesses disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and other periodic reports filed with the Securities and Exchange Commission. These measures include, among other things, additional hiring in the accounting department and strengthening its controls over IT reporting and management. The Company believes these changes improved controls over financial reporting and is continuing to assess and test its improved controls to ensure they are effective and that all material weaknesses have been adequately addressed.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may be involved in various claims and counterclaims and legal actions arising in the ordinary course of business. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

C.H. Robinson Worldwide, Inc. v. True Drinks, Inc. On September 5, 2018, C.H. Robinson Worldwide (" *Robinson*") filed a complaint against True Drinks, Inc. in the California Superior Court for the County of Orange located in Santa Ana, California alleging open book account, account stated, reasonable value of services received, agreement, and unjust enrichment related to shipping services provided by Robinson. Robinson has asserted $121,743 in damages plus interest, attorney's fees and costs. We believe Robinson's claim is substantially offset by damages caused by its failures to timely deliver products it was supposed to ship and intend to vigorously defend the complaint. The probability of any loss cannot be determined at this time.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, filed on April 14, 2020, in addition to the other information contained in this Report, before making an investment decision. Our business, financial condition or results of operations could be harmed by any of these risks. As a result, you could lose some or all of your investment in our common stock. These risks and uncertainties are not the only ones we face. Additional risks not currently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business operations.

Our operations are now primarily dependent on the business of Charlie's and Don Polly, and our ability to achieve positive cash flow under our new business plan is uncertain.

As a result of the Share Exchange, our continued operations are now primarily dependent on the business of Charlie's and Don Polly. Although Charlie's and Don Polly generated net revenue of approximately $4.4 million during the quarter ended March 31, 2020 and $22.7 million for the year ended December 31, 2019, there can be no guarantee that the Company will continue to grow revenue or achieve positive cash flow in the future.

Our operating results in the past will not reflect our operating results in the future, which makes it difficult to evaluate our future business, prospects, and forecast revenue.

Until recently, our business was comprised primarily of the development, marketing, sale and distribution of all-natural, vitamin-enhanced drinks. As a result of our decision to consummate the Share Exchange, our future revenue will substantially differ from past revenue, and our operating results will vary significantly compared to past operating results. It is too early to predict whether consumers will accept, and continue to use on a regular basis, our new products, due in part to the fact that we have had limited recent operating history as a combined entity with Charlie's. Factors that will significantly affect our operating results include, without limitation, the following:

- the expected increase in revenue due to the addition of those products developed and marketed by Charlie's prior to the Share Exchange, as well as any products that we may release in the future, to our revenue stream;
- our decision in early 2018 to discontinue the production and sale of AquaBall®, that in the year ended December 31, 2018, contributed approximately $1,767,802 in revenue;
- our previous sole reliance on sales of Bazi®, that in the years ended December 31, 2019 and 2018, contributed approximately $22,207 and $179,250 in revenue to the Company, respectively; and
- the restructuring of substantially all of our previously outstanding debt and shares of preferred stock on April 26, 2019, in connection with the Share Exchange.

Our cash resources are currently insufficient to submit each of our anticipated PMTA applications with the FDA, and otherwise satisfy our projected short-term liquidity and capital requirements.

As of March 31, 2020, we had negative working capital of approximately $3,330,000, which consisted of current assets of approximately $4,136,000 and current liabilities of approximately $7,466,000. In addition, we expect the cost associated with the preparation and submission of PMTAs with the FDA will be approximately $4.4 million in total. We therefore currently believe that our cash resources will be insufficient to fund our operations for the next twelve months and prepare and submit our PMTA applications with the FDA. As a result, we will be required to seek additional financing in the future in order to fund our operations, complete the PMTA application process and otherwise carry out our business plan. There can be no assurance that such financing will be available on acceptable terms, or at all, and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in our best interests.

The failure of the Company to pay a required one-time dividend on its Series A Preferred, or obtain a waiver of such payment or consent to amend the Series A Preferred to allow the Company to pay such dividend in shares of its common stock, may have a material adverse effect on the Company's financial condition.

The Company was required to pay a one-time dividend equal to eight percent (8%) of the stated value of its Series A Preferred, equal to $1,650,000 ("*Dividend Amount*"), which Dividend Amount was required to be paid in cash on or before April 25, 2020. The Company failed to pay the required dividend and has requested that holders of more than 50% of the Series A Preferred issued and outstanding ("*Required Holders*") consent to an amendment to the Series A Preferred to allow the Company to pay such Dividend Amount in shares of the Company's common stock. To date, the Company has not obtained such consent from the Required Holders. In the event the Company is unable to obtain consents from the Required Holders to pay the Dividend Amount in shares of common stock in lieu of cash, or does not otherwise pay such Dividend Amount in cash or obtain a waiver, any claims asserted by the holders of the Series A Preferred could have a material adverse effect on the Company's financial condition.

Our auditors have issued a going concern opinion on our financial statements as of December 31, 2019.

Our financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company operates in a rapidly changing legal and regulatory environment; new laws and regulations or changes to existing laws and regulations could significantly limit the Company's ability to sell its products, and/or result in additional costs. Additionally, the Company is required to apply for FDA approval to continue selling and marketing its products used for the vaporization of nicotine in the United States. There is significant cost associated with the application process and there can be no assurance the FDA will approve the application(s). In addition, the recent outbreak of a novel strain of the coronavirus disease ("*COVID-19*") which was identified in Wuhan, China around December 2019 and continues to spread globally, has had a negative impact on the global economy and markets which could impact the Company's supply chain and/or sales. For the three months ended March 31, 2020, the Company has incurred losses from operations of $4,351,000 and a consolidated net loss of approximately $3,916,000, and the Company has negative stockholders' equity of $2,294,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to the carrying amount and classification of recorded assets and liabilities should the Company be unable to continue operations.

Our business is difficult to evaluate because we have recently significantly modified our product offerings and customer base.

As a result of the Share Exchange, we have recently modified our operations, engaging in the sale of new products in a new market through new distributors and new lines of business. There is a risk that we will be unable to successfully integrate the newly acquired businesses with our current structure. Our estimates of capital, personnel and equipment required for our newly acquired businesses are based on the historical experience of management and businesses they are familiar with. Our management has limited direct experience in operating a business of our current size, as well as one that is publicly traded.

Our products could fail to attract or retain users or generate revenue and profits.

As a result of the Share Exchange, our customer base has changed significantly. Our ability to develop, increase, and engage our new customer base and to increase our revenue depends heavily on our ability to continue to evolve our existing products and to create successful new products, both independently and in conjunction with developers or other third parties. We may introduce significant changes to our existing products or acquire or introduce new and unproven products, including using technologies with which we have little or no prior development or operating experience. If new or enhanced products fail to engage our customers, or if we are unsuccessful in our monetization efforts, we may fail to attract or retain customers or to generate sufficient revenue, operating margin, or other value to justify our investments, and our business may be adversely affected.

Our significant stockholders may have certain personal interests that may affect the Company.

Together, Brandon Stump and Ryan Stump, the founders of Charlie's and our Chief Executive Officer and Chief Operating Officer, respectively, collectively own approximately 59% of our issued and outstanding voting securities as a result of the Share Exchange. As a result, Ryan Stump and Brandon Stump have the ability to exert influence over both the actions of our Board of Directors, the outcome of issues requiring approval by our stockholders, as well as the execution of management's plans. This concentration of ownership may have effects such as delaying or preventing a change in control of the Company that may be favored by other stockholders or preventing transactions in which stockholders might otherwise recover a premium for their shares over current market prices.

We will need to hire additional qualified accounting and administrative personnel in order to remediate material weaknesses in our internal control over financial accounting, and we will need to expend additional resources and efforts to establish and maintain the effectiveness of our internal control over financial reporting and our disclosure controls and procedures.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the " *Exchange Act*"), and the Sarbanes-Oxley Act of 2002. Our management is required to evaluate and disclose its assessment of the effectiveness of our internal control over financial reporting as of each year-end, including disclosing any "material weakness" in our internal control over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of its assessment, management has determined that there were material weaknesses due to the lack of segregation of duties and sufficient internal controls (including technology-based general controls) that encompass our Company as a whole with respect to entity and transactions level controls in order to ensure complete documentation of complex and non-routine transactions and adequate financial reporting. If we continue to experience material weaknesses in our internal controls or fail to maintain or implement required new or improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements, or adversely affect the results of periodic management evaluations and, if required, annual auditor attestation reports.

Due to these material weaknesses, management concluded that, as of December 31, 2019 and 2018, our internal control over financial reporting was ineffective. Management also concluded that our disclosure controls and procedures were ineffective as of December 31, 2019 and 2018, as well as for the quarter ended March 31, 2020. These weaknesses were first identified in our Annual Report on Form 10-K for the year ended December 31, 2012. In 2018, we reduced our staff to one employee, and outsourced our accounting and financial functions, further exacerbating our weaknesses in our internal control over financial reporting and our disclosure controls and procedures. Although the number of employees has grown as a result of the Share Exchange and the addition of Charlie's operations, including the hiring of a new Chief Executive Officer, Chief Financial Officer and additional accounting and information technology staff, no assurances can be provided that we will have sufficient resources to resolve these material weaknesses. These weaknesses have the potential to adversely impact our financial reporting process and our financial reports. We will need to hire additional qualified accounting and administrative personnel in order to resolve these material weaknesses.

The loss of one or more of our key personnel or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of key members of our management team, in particular, Brandon Stump and Ryan Stump, Charlie's founders and our Chief Executive Officer and Chief Operating Officer, respectively, and David Allen, our Chief Financial Officer. If we cannot call upon them or other key management personnel for any reason, our operations and development could be harmed. We have not yet developed a succession plan. Furthermore, as we grow, we will be required to hire and attract additional qualified professionals such as accounting, legal, finance, production, market and sales experts. We may not be able to locate or attract qualified individuals for such positions, which will affect our ability to grow and expand our business.

We rely on contractual arrangements with Don Polly, our consolidated variable interest entity for our CBD-related business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with Don Polly and its shareholders, consisting of entities controlled by Brandon Stump and Ryan Stump, for the operation of our CBD-related operations. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated variable interest entity. For example, Don Polly and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations, including maintaining our website and using the domain names and trademarks, in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of Don Polly, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Don Polly, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by Don Polly, and its shareholders of their obligations under the contracts. The shareholders of Don Polly may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with Don Polly. Therefore, our contractual arrangements with Don Polly, our consolidated variable interest entity, may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

The shareholders of Don Polly, our consolidated variable interest entity, may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The equity interests of Don Polly, our consolidated variable interest entity, are held by entities controlled by Brandon Stump, our Chief Executive Officer, and Ryan Stump, our Chief Operating Officer. Their interests in Don Polly may differ from the interests of our company as a whole. These shareholders may breach, or cause Don Polly to breach, the existing contractual arrangements we have with them and Don Polly, which would have a material adverse effect on our ability to effectively control Don Polly and receive economic benefits from it. For example, the shareholders may be able to cause our agreements with Don Polly to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and the Company. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Don Polly, we would have to rely on legal proceedings, which could result in the disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We have no commercial manufacturing capacity and rely on third-party contract manufacturers to produce commercial quantities of our products.

We do not have the facilities, equipment or personnel to manufacture commercial quantities of our products and therefore must rely on qualified third-party contract manufactures with appropriate facilities and equipment to contract manufacture commercial quantities of products. Any performance failure on the part of our contract manufacturers could delay commercialization of any of our products, depriving us of potential product revenue.

Failure by our contract manufacturers to achieve and maintain high manufacturing standards could result in product recalls or withdrawals, delays or failures in testing or delivery, cost overruns or other problems that could materially adversely affect our business. Contract manufacturers may encounter difficulties involving production yields, quality control and quality assurance. If for some reason our contract manufacturers cannot perform as agreed, we may be required to replace them. Although we believe there are a number of potential replacements, we may incur added costs and delays in identifying and obtaining any such replacements.

The inability of a manufacturer to ship orders of our products in a timely manner or to meet quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect as our revenue would decrease and we would incur net losses as a result of sales of the product, if any sales could be made.

We are subject to cyber-security risks, including those related to customer, employee, vendor or other company data and including in connection with integration of acquired businesses and operations.

We use information technologies to securely manage operations and various business functions. We rely on various technologies, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including reporting on our business and interacting with customers, vendors and employees. In addition, we collect and store certain data, including proprietary business information, and may have access to confidential or personal information that is subject to privacy and security laws, regulations and customer-imposed controls. Our systems are subject to repeated attempts by third parties to access information or to disrupt our systems. Despite our security design and controls, and those of our third-party providers, we may become subject to system damage, disruptions or shutdowns due to any number of causes, including cyber-attacks, breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, service providers, natural disasters or other catastrophic events. It is possible for such vulnerabilities to remain undetected for an extended period. We may face other challenges and risks as we upgrade and standardize our information technology systems as part of our integration of acquired businesses and operations. We have contingency plans in place to prevent or mitigate the impact of these events, however, these events could result in operational disruptions or the misappropriation of sensitive data, and depending on their nature and scope, could lead to the compromise of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions and exposure to liability. Such disruptions or misappropriations and the resulting repercussions, including reputational damage and legal claims or proceedings, may adversely affect our results of operations, cash flows and financial condition, and the trading price of our common stock.

This risk is enhanced in certain jurisdictions with stringent data privacy laws. For example, California recently adopted the California Consumer Privacy Act of 2018 ("*CCPA*"), which provides new data privacy rights for consumers and new operational requirements for businesses. The CCPA includes a statutory damages framework and private rights of action against businesses that fail to comply with certain CCPA terms or implement reasonable security procedures and practices to prevent data breaches. The CCPA went into effect in January 2020.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar other constraints, which can make compliance costly and subject us to enforcement actions by governmental agencies.

The formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising and sale of our products are affected by extensive laws, governmental regulations and policies, administrative determinations, court decisions and similar constraints at the federal, state and local levels, both within the United States and in any country where we conduct business. There can be no assurance that we, or our independent distributors, will be in compliance with all of these regulations. A failure by us or our distributors to comply with these laws and regulations could lead to governmental investigations, civil and criminal prosecutions, administrative hearings and court proceedings, civil and criminal penalties, injunctions against product sales or advertising, civil and criminal liability for us and/or our principals, bad publicity, and tort claims arising out of governmental or judicial findings of fact or conclusions of law adverse to us or our principals. In addition, the adoption of new regulations and policies or changes in the interpretations of existing regulations and policies may result in significant new compliance costs or discontinuation of product sales, and may adversely affect the marketing of our products, resulting in decreases in revenue.

The business that we conduct outside the U.S. may be adversely affected by international risk and uncertainties.

Although our operations are based in the United States, we conduct business outside of the United States and expect to continue to do so in the future. Any business that we conduct outside of the United States is subject to additional risks that may have a material adverse effect on our ability to continue conducting business in certain international markets, including, without limitation:

- Potentially reduced protection for intellectual property rights;
- Unexpected changes in tariffs, trade barriers and regulatory requirements;
- Economic weakness, including inflation or political instability, in particular foreign economies and markets;
- Business interruptions resulting from geo-political actions, including war and terrorism or natural disasters, including earthquakes, hurricanes, typhoons, floods and fires; and
- Failure to comply with Office of Foreign Asset Control rules and regulations and the Foreign Corrupt Practices Act (" *FCPA*").

These factors or any combination of these factors may adversely affect our revenue or our overall financial performance.

The recent outbreak of COVID-19, or coronavirus, may adversely affect our business.

In the event of a pandemic, epidemic or outbreak of an infectious disease, our business may be adversely affected. In December 2019, a novel strain of COVID-19 was identified in Wuhan, China which continues to spread globally to, among other countries, the United States. Such events may result in a period of business and travel disruption, and in reduced sales and operations, any of which could materially affect our business, financial condition and results of operations. For example, the spread of COVID-19 in the United States has resulted in travel restrictions impacting our sales professionals and is causing disruptions to our manufacturing supply chain. These conditions have begun to negatively affect our sales and revenue, specifically relating to our CBD products, although the magnitude of such a negative impact cannot be determined at this time. However, if repercussions of the outbreak are prolonged, it will have a further adverse impact on our business.

The outbreak and persistence of COVID-19 in international markets that we have targeted for our international expansion have also delayed the preparation for and launch of such expansion efforts. The spread of COVID-19 has resulted in the inability of certain of our products being delivered and distributed to the overseas markets on a timely basis. If there were a shortage or halt in distribution of our products, the cost of these materials or components may increase which could harm our ability to provide our products on a timely and cost-effective basis.

The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted. The Company will continue to closely monitor new information as it emerges and adjust our operations and sales accordingly.

Regulatory and Market Risks

Our business is primarily involved in the sales of products that contain nicotine and/or CBD, which faces significant regulation and actions that may have a material adverse effect on our business.

As a result of the Share Exchange, our current business is primarily involved in the sale of products that contain nicotine and/or CBD. The general market in which our products are sold faces significant governmental and private sector actions, including efforts aimed at reducing the incidence of use in minors and efforts seeking to hold the makers and sellers of these products responsible for the adverse health effects associated with them. More broadly, new regulatory actions by the Food and Drug Administration ("*FDA*") and other federal, state or local governments or agencies, may impact the consumer acceptability of or access to our products, including regulations promulgated by the FDA which will require us to file PMTA(s) for any of our products that are identified as "Deemed Tobacco Products" by the FDA that we intend to market and sell after September 9, 2020. Additionally, on January 2, 2020 the FDA issued an enforcement policy effectively banning the sale of flavored cartridge-based e-cigarettes marketed primarily by large manufacturers in the United States without prior authorization from the FDA. According to the FDA, it is expected that the new policy will have minimal impact on small manufacturers, such as vape shops, that sell non-cartridge based products. We believe that any ban on flavored e-cigarettes, or similar enforcement action by the FDA, would have a significant material adverse impact on the Charlie's Products, which would, in turn, have a material adverse impact on our overall business.

Additional regulatory challenges may come in future months and years, including the FDA's publication of new product standards or additional rule making that may impact vape shops or other small manufacturers, limit adult consumer choices, delay or prevent the launch of new or modified risk tobacco products or products with claims of reduced risk, require the recall or other removal of certain products from the marketplace, restrict communications including marketing, advertising, and educational campaigns regarding the product category to adult consumers, restrict the ability to differentiate products, create a competitive advantage or disadvantage for certain companies, impose additional manufacturing, labeling or packaging requirements, interrupt manufacturing or otherwise significantly increase the cost of doing business, or restrict or prevent the use of specified products in certain locations or the sale of products by certain retail establishments. Any of these actions may also have a material adverse effect on our business. Each of our products are also subject to intense competition and changes in adult consumer preferences, which could have a material adverse effect on our business.

Our products contain nicotine, which is considered to be a highly addictive substance.

Certain of our products contain nicotine, a chemical found in cigarettes, e-cigarettes, certain other vapor products and other tobacco products, which is considered to be highly addictive. The Family Smoking Prevention and Tobacco Control Act empowers the FDA to regulate the amount of nicotine found in vapor products, but may not require the reduction of nicotine yields of a vapor product to zero. Any FDA regulation may require us to reformulate, recall and or discontinue certain of the products we may sell from time to time, which may have a material adverse effect on our ability to market our products and have a material adverse effect on our business, financial condition, results of operations, cash flows and or future prospects.

Recent bans on the sales of flavored e-cigarettes directly impacts the markets in which we may sell Charlie's Products, and may have a material adverse impact on our business.

On January 2, 2020 the FDA issued an enforcement policy effectively banning the sale of flavored cartridge-based e-cigarettes marketed primarily by large manufacturers in the United States without prior authorization from the FDA. In addition, Utah, Washington, Rhode Island, New York and Massachusetts have temporarily banned the sale of flavored e-cigarettes, while previously imposed bans in Michigan and Oregon have been temporarily halted by judicially imposed injunctions. In addition, other states and municipalities are considering implementing similar restrictions, and some cities have implemented more restrictive measures than their state counterparts, such as San Francisco, which in June 2019, approved a new ban on the sale of flavored nicotine products, including vaping liquids and menthol cigarettes. Any ban of on the sale of flavored e-cigarettes directly limits the markets in which we may sell the Charlie's Products. In the event the prevalence of such bans increases across the United States, our business, results of operations and financial condition will be materially harmed.

There is uncertainty related to the regulation of flavored e-cigarette liquid and vaporization products and certain other consumption accessories, including the possibility that flavored e-cigarette liquid and vaporization products may be recalled or removed from the market entirely. Any increased regulatory compliance burdens will have a material adverse impact on our operations and future business development efforts.

There has been increasing activity on the federal, state, and local levels with respect to scrutiny of flavored e-cigarette liquid and vaporizer products, and there is uncertainty regarding whether and in what circumstances federal, state, or local regulatory authorities will seek to develop and/or enforce regulations relative to products used for the vaporization of nicotine. Federal, state, and local governmental bodies across the United States have indicated that flavored e-cigarette liquid, vaporization products and certain other consumption accessories may become subject to new laws and regulations at the state and local levels. In addition to the initiatives taken by the FDA at the federal level, over 25 states have implemented statewide regulations that prohibit vaping in public places, and, as of January 21, 2020, Utah, Washington, Rhode Island, New York and Massachusetts have temporarily banned the sale of flavored e-cigarettes, while previously imposed bans in Michigan and Oregon have been temporarily halted by judicially imposed injunctions. Many states, provinces, and some cities have passed laws restricting the sale of e-cigarettes and certain other nicotine vaporizer products.

Changes to the application of existing laws and regulations, and/or the implementation of any new laws or regulations that may be adopted in the future, at a federal, state, or local level, directly or indirectly implicating flavored e-cigarette liquid and products used for the vaporization of nicotine would materially limit our ability to sell such products, result in additional compliance expenses, and require us to change our labeling and methods of distribution, any of which would have a material adverse effect on our business, results of operations and financial condition.

The regulation of tobacco products by the FDA in the United States and the issuance of Deeming Regulations may materially adversely affect the Company.

The “Deeming Regulations” issued by the FDA in May 2016 require any e-liquid, e-cigarettes, and other vaping products considered to be Deemed Tobacco Products that were not commercially marketed as of the grandfathering date of February 15, 2007, to obtain premarket approval by the FDA before any new e-liquid or other vaping products can be marketed in the United States. However, any Deemed Tobacco Products such as certain products from our Charlie's Chalk Dust and Pachamama product lines that were on the market in the United States prior to August 8, 2016 have a grace period to continue to market such products, ending on September 9, 2020 whereby a premarket application, likely though the PMTA pathway, must be completed and filed with the FDA. Upon submission of a PMTA, products would then be able to be marketed pending the FDA’s review of the submission. Without obtaining marketing authorization by the FDA prior to September 9, 2020 or having submitted a PMTA by such date, non-authorized products would be required to be removed from the market in the United States until such authorization could be obtained, although such products may continue to be sold if a PMTA is pending as of the September 9, 2020 deadline.

As at the date of this Report, we are preparing to submit three PMTAs for certain of our traditional nicotine vapor products, including, but not limited to menthol and/or tobacco products with the assistance of Avail, pursuant to the terms of the Avail Agreement. We estimate the cost associated with these PMTAs to be approximately $4.4 million in total. We are also evaluating the potential market perception and clinical studies that may be required in connection with each PMTA. If we do not submit a PMTA for any Charlie’s Products considered to be Deemed Tobacco Products prior to the lapse of the grace period or if any PMTA submitted by the Company is denied, we will be required to cease the marketing and distribution of such Charlie’s Products, which, in turn, would have a material adverse effect on the Company’s business, results of operations and financial condition. Furthermore, there can be no assurance that if the Company were to complete a PMTA for any of the affected Charlie's Products, that any application would be approved by the FDA.

There is substantial concern regarding the effect of long-term use of vaping products. Despite the recent outbreak of vaping-related lung injuries, the medical profession does not yet definitively know the cause of such injuries. Should vapor products, such as the Charlie’s Products, be determined conclusively to pose long-term health risks, including a risk of vaping-related lung injury, our business will be negatively impacted.

Because vapor products have been developed and commercialized recently, the medical profession has not yet had a sufficient period of time to fully realize the long-term health effects attributable to vapor product use. On November 8, officials at the CDC reported a breakthrough in the investigation into the outbreak of vaping-related lung injuries. The CDC's principal deputy director, Dr. Anne Schuchat, stated that "vitamin E acetate is a known additive used to dilute liquid in e-cigarettes or vaping products that contain THC”, suggesting the possible culprit for the series of lung injuries across the U.S. As a result, there is currently no way of knowing whether or not vapor products are safe for their intended use. If the medical profession were to determine conclusively that vapor product usage poses long-term health risks, the use of such products, including the Charlie’s Products, could decline, which could have a material adverse effect on our business, results of operations and financial condition.

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

Vapor products, having recently been introduced to market, are still at an early stage of development, represent a niche market, are evolving rapidly and are characterized by an increasing number of market entrants. Our future sales and any future profits are substantially dependent upon the widespread acceptance and use of vapor products. Rapid growth in the use of, and interest in, vapor products is recent, and may not continue on a lasting basis. The demand and market acceptance for these products is subject to a high level of uncertainty. Therefore, we are subject to all of the business risks associated with a new enterprise in a niche market, including risks of unforeseen capital requirements, failure of widespread market acceptance of vapor products, in general or, specifically our products, failure to establish business relationships and competitive disadvantages as against larger and more established competitors.

Possible yet unanticipated changes in federal and state law could cause any of our current products, as well as products that we intend to launch, containing hemp-derived CBD oil to be illegal, or could otherwise prohibit, limit or restrict any of our products containing CBD.

We recently launched and commenced distribution of certain premium vapor products containing hemp-derived CBD, and we currently intend to develop and launch additional products containing hemp-derived CBD in the future. Until 2014, when 7 U.S. Code §5940 became federal law as part of the Agricultural Act of 2014 (the "*2014 Farm Act*"), products containing oils derived from hemp, notwithstanding a minimal or non-existing THC content, were classified as Schedule I illegal drugs. The 2014 Farm Act expired on September 30, 2018, and was thereafter replaced by the Agricultural Improvement Act of 2018 on December 20, 2018 (the "*2018 Farm Act*"), which amended various sections of the U.S. Code, thereby removing hemp, defined as cannabis with less than 0.3% THC, from Schedule 1 status under the Controlled Substances Act, and legalizing the cultivation and sale of industrial-hemp at the federal level, subject to compliance with certain federal requirements and state law, amongst other things. THC is the psychoactive component of plants in the cannabis family generally identified as marihuana or marijuana. There is no assurance that the 2018 Farm Act will not be repealed or amended such that our products containing hemp-derived CBD would once again be deemed illegal under federal law.

The 2018 Farm Act delegates the authority to the states to regulate and limit the production of hemp and hemp derived products within their territories. Although many states have adopted laws and regulations that allow for the production and sale of hemp and hemp derived products under certain circumstances, no assurance can be given that such state laws may not be repealed or amended such that our intended products containing hemp-derived CBD would once again be deemed illegal under the laws of one or more states now permitting such products, which in turn would render such intended products illegal in those states under federal law even if the federal law is unchanged. In the event of either repeal of federal or of state laws and regulations, or of amendments thereto that are adverse to our intended products, we may be restricted or limited with respect to those products that we may sell or distribute, which could adversely impact our intended business plan with respect to such intended products.

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

Sources of hemp-derived CBD depend upon legality of cultivation, processing, marketing and sales of products derived from those plants under state law.

Hemp-derived CBD can only be legally produced in states that have laws and regulations that allow for such production and that comply with the 2018 Farm Act, apart from state laws legalizing and regulating medical and recreational cannabis or marijuana, which remains illegal under federal law and regulations. We purchase all of our hemp-derived CBD from licensed growers and processors in states where such production is legal. As described in the preceding risk factor, in the event of repeal or amendment of laws and regulations which are now favorable to the cannabis/hemp industry in such states, we would be required to locate new suppliers in states with laws and regulations that qualify under the 2018 Farm Act. If we were to be unsuccessful in arranging new sources of supply of our raw ingredients, or if our raw ingredients were to become legally unavailable, our intended business plan with respect to such products could be adversely impacted.

Because our distributors may only sell and ship our products containing hemp-derived CBD in states that have adopted laws and regulations qualifying under the 2018 Farm Act, a reduction in the number of states having such qualifying laws and regulations could limit, restrict or otherwise preclude the sale of intended products containing hemp-derived CBD.

The interstate shipment of hemp-derived CBD from one state to another is legal only where both states have laws and regulations that allow for the production and sale of such products and that qualify under the 2018 Farm Act. Therefore, the marketing and sale of our intended products containing hemp-derived CBD is limited by such factors and is restricted to such states. Although we believe we may lawfully sell any of our finished products, including those containing CBD, in a majority of states, a repeal or adverse amendment of laws and regulations that are now favorable to the distribution, marketing and sale of finished products we intend to sell could significantly limit, restrict or prevent us from generating revenue related to our products that contain hemp-derived CBD. Any such repeal or adverse amendment of now favorable laws and regulations could have an adverse impact on our business plan with respect to such products.

Due to recent expansion into the CBD industry, we may have a difficult time obtaining the various insurances that are desired to operate our business, which may expose us to additional risk and financial liability.

Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may become more difficult for us to find, and more expensive, due to our recent launch of certain products containing hemp-derived CBD. There are no guarantees that we will be able to find such insurances in the future, or that the cost will be affordable to us. If we are forced to go without such insurances, it may prevent us from entering into certain business sectors, may inhibit our growth, and may expose us to additional risk and financial liabilities.

We face significant competition from existing suppliers of products similar to ours. If we are not able to compete with these companies effectively, we may not be able to achieve profitability.

We face intense competition from numerous resellers, manufacturers and wholesalers of e-liquids similar to those developed and sold by us, from both retail and online providers. We face competition from direct and indirect competitors, which arguably includes "big tobacco", "big pharma", and other known and established or yet to be formed vapor product manufacturing companies, each of whom pose a competitive threat to our current business and future prospects. We compete against "big tobacco", who offers not only conventional tobacco cigarettes and electronic cigarettes, but also smokeless tobacco products such as "snus" (a form of moist ground smokeless tobacco that is usually sold in sachet form that resembles small tea bags), chewing tobacco and snuff. "Big tobacco" has nearly limitless resources, global distribution networks in place and a customer base that is fiercely loyal to their brands. Furthermore, we believe that "big tobacco" is likely to devote more attention and resources to developing and offering electronic cigarettes or other vapor products as the market for electronic cigarettes grows. Because of their well-established sales and distribution channels, marketing depth, financial resources, and proven expertise navigating complex regulatory landscapes, "big tobacco" is better positioned than small competitors like us to capture a larger share of the vapor markets. We also face competition from companies in the vapor market that are much larger, better funded, and more established than us.

Companies with greater capital and research capabilities could re-formulate existing products or formulate new products that could gain wide marketplace acceptance, which could have a depressive effect on our future sales. In addition, aggressive advertising and promotion by our competitors may require us to compete by lowering prices because we do not have the resources to engage in marketing campaigns against these competitors, and the economic viability of our operations likely would be diminished.

Adverse publicity associated with our products or ingredients, or those of similar companies, could adversely affect our sales and revenue.

Adverse publicity concerning any actual or purported failure by us to comply with applicable laws and regulations regarding any aspect of our business could have an adverse effect on the public perception of the Company. This, in turn, could negatively affect our ability to obtain financing, endorsers and attract distributors or retailers for our products, which would have a material adverse effect on our ability to generate sales and revenue.

Our distributors' and customers' perception of the safety and quality of our products or even similar products distributed by others can be significantly influenced by national media attention, publicized scientific research or findings, product liability claims and other publicity concerning our products or similar products distributed by others. Adverse publicity, whether or not accurate, that associates consumption of our products or any similar products with illness or other adverse effects, will likely diminish the public's perception of our products. Claims that any products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could have a material adverse effect on the market demand for our products, including reducing our sales and revenue.

Our products may not meet health and safety standards or could become contaminated.

We have adopted various quality, environmental, health and safety standards. We do not have control over all of the third parties involved in the manufacturing of our products and their compliance with government health and safety standards. Even if our products meet these standards, they could otherwise become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our manufacturers, distributors or suppliers. This could result in expensive production interruptions, recalls and liability claims. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business and financial performance.

The sale of our products involves product liability and related risks that could expose us to significant insurance and loss expense.

We face an inherent risk of exposure to product liability claims if the use of our products results in, or is believed to have resulted in, illness or injury. Our products contain combinations of ingredients, and there is little long-term experience with the effect of these combinations. In addition, interactions of these products with other products, prescription medicines and over-the-counter drugs have not been fully explored or understood and may have unintended consequences. While our third-party manufacturers perform tests in connection with the formulations of our products, these tests are not designed to evaluate the inherent safety of our products.

Any product liability claim may increase our costs and adversely affect our revenue and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, which, if adversely determined, could subject us to substantial monetary damages.

The success of our business will depend upon our ability to create and expand our brand awareness.

The market we compete in is highly competitive, with many well-known brands leading the industry. Our ability to compete effectively and generate revenue will be based upon our ability to create and expand awareness of our products distinct from those of our competitors. It is imperative that we are able to convey to consumers the benefits of our products. However, advertising and packaging and labeling of such products will be limited by various regulations. Our success will be dependent upon our ability to convey to consumers that our products are superior to those of our competitors.

We must develop and introduce new products to succeed.

Our industry is subject to rapid change. New products are constantly introduced to the market. Our ability to remain competitive depends in part on our ability to enhance existing products, to develop and manufacture new products in a timely and cost-effective manner, to accurately predict market transitions, and to effectively market our products. Our future financial results will depend to a great extent on the successful introduction of several new products. We cannot be certain that we will be successful in selecting, developing, manufacturing and marketing new products or in enhancing existing products.

The success of new product introductions depends on various factors, including, without limitation, the following:

- proper new product selection;
- successful sales and marketing efforts;
- timely delivery of new products;
- availability of raw materials;
- pricing of raw materials;
- regulatory allowance of the products; and
- customer acceptance of new products.

If we are not able to adequately protect our intellectual property, then we may not be able to compete effectively, and we may not be profitable.

Our existing proprietary rights may not afford remedies and protections necessary to prevent infringement, reformulation, theft, misappropriation and other improper use of our products by competitors. We own the formulations for our products and we consider these product formulations our critical proprietary property, which must be protected from competitors. We do not currently have any patents for our product formulations. Although trade secret, trademark, copyright and patent laws generally provide a certain level of protection, and we attempt to protect ourselves through contracts with manufacturers of our products, we may not be successful in enforcing our rights. In addition, enforcement of our proprietary rights may require lengthy and expensive litigation. We have attempted to protect some of the trade names and trademarks used for our products by registering them with the U.S. Patent and Trademark Office, but we must rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide the same remedies as are granted to federally registered trademarks, and the rights of a common law trademark are limited to the geographic area in which the trademark is actually used. Our inability to protect our intellectual property could have a material adverse impact on our ability to compete and could make it difficult for us to achieve a profit.

Compliance with changing corporate governance regulations and public disclosures may result in additional risks and exposures.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new regulations from the SEC, have created uncertainty for public companies such as ours. These laws, regulations, and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased expense and significant management time and attention.

Risks Related to Our Common Stock

A limited trading market currently exists for our securities, and we cannot assure you that an active market will ever develop, or if developed, will be sustained.

There is currently a limited trading market for our common stock on the OTC Pink Marketplace and an active trading market for our common stock may not develop. Consequently, we cannot assure you when and if an active-trading market in our shares will be established, or whether any such market will be sustained or sufficiently liquid to enable holders of shares of our common stock to liquidate their investment in our Company. If an active public market should develop in the future, the sale of unregistered and restricted securities by current stockholders may have a substantial impact on any such market.

Sales of a substantial number of shares of our common stock, or the perception that such sales may occur, may adversely impact the price of our common stock.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception that such sales may occur, may adversely impact the price of our common stock, even if there is no relationship between such sales and the performance of our business. As of May 13, 2020, we had 18,990,752,596 shares of common stock outstanding, as well as outstanding options to purchase an aggregate of 801,325,000 shares of our common stock at a weighted average exercise price of $ 0.0044313 per share, up to 4,607,805,561 shares of common stock issuable upon conversion of outstanding shares of Series A Preferred and outstanding warrants to purchase up to an aggregate of 4,033,769,340 shares of our common stock at a weighted average exercise price of $0.0044313 per share. The exercise and/or conversion of such outstanding derivative securities may result in further dilution to our stockholders.

If we issue additional shares of common stock in the future, it will result in the dilution of our existing stockholders.

Our Charter currently authorizes the issuance of up to 50.0 billion shares of common stock, of which approximately 18.982 billion shares are currently issued and outstanding. In addition, we have reserved approximately 10.2 billion shares for issuance upon conversion and/or exercise of our outstanding shares of Series A Preferred, warrants and stock options, as well as for issuance as awards under our 2019 Omnibus Incentive Plan. The issuance of any additional shares of our common stock, including those shares issuable upon conversion and/or exercise of our outstanding derivative securities, will result in significant dilution to our stockholders and a reduction in value of our outstanding common stock. Further, any such issuance may result in a change of control of our corporation.

Holders of Series A Convertible Preferred Stock have substantial rights and ranks senior to our common stock.

Our common stock ranks junior as to dividend rights, redemption rights, conversion rights and rights in any liquidation, dissolution or winding-up of the Company to the Series A Preferred. Upon liquidation, dissolution or winding-up of the Company, the holders of the Series A Preferred are entitled to a liquidation preference equal to the original purchase price of Series A Preferred prior to and in preference to any distribution to the holders of our common stock. In addition, the holders of the Series A Preferred are also entitled to an annual 8% dividend payable in cash or shares of our common stock. Such rights could cause dilution of our common stock or limit our cash.

Our outstanding Series A Preferred contains anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing common stock holders which could adversely affect our stock price.

Our outstanding Series A Preferred contains certain anti-dilution provisions that benefit the holders thereof. As a result, if we, in the future, issue common stock or grant any rights to purchase our common stock or other securities convertible into our common stock for a per share price less than the then existing conversion price of the Series A Preferred, an adjustment to the then current conversion price would occur. This reduction in the conversion price could result in substantial dilution to our then-existing common stockholders as well as give rise to a beneficial conversion feature reported on our statement of operations. Either or both of which could adversely affect the price of our common stock.

The price of our securities could be subject to wide fluctuations and your investment could decline in value.

The market price of the securities of a company such as ours with little name recognition in the financial community can be subject to wide price swings. The market price of our common stock may be subject to wide changes in response to quarterly variations in operating results, announcements of new products by us or our competitors, reports by securities analysts, volume trading, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations for a number of reasons, including the failure of certain companies to meet market expectations. These broad market price swings, or any industry-specific market fluctuations, may adversely affect the market price of our securities.

Companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we were to become the subject of securities class action litigation, it could result in substantial costs and a significant diversion of our management's attention and resources.

Because our common stock may be classified as "penny stock", trading may be limited, and the share price could decline. Moreover, trading of our common stock, if any, may be limited because broker-dealers would be required to provide their customers with disclosure documents prior to allowing them to participate in transactions involving our common stock. These disclosure requirements are burdensome to broker-dealers and may discourage them from allowing their customers to participate in transactions involving our common stock.

We have issued preferred stock with rights senior to our common stock, and may issue additional preferred stock in the future.

Our Charter authorizes the issuance of up to 5.0 million shares of preferred stock, par value $0.001 per share, without stockholder approval and on terms established by our directors, of which 300,000 shares have been designated as Series A Preferred and 1.5 million shares have been designated as Series B Preferred. We may issue additional shares of preferred stock in the future in order to consummate a financing or other transaction, in lieu of the issuance of shares of our common stock. The rights and preferences of any such class or series of preferred stock would be established by our Board of Directors in its sole discretion and may have dividend, voting, liquidation and other rights and preferences that are senior to the rights of the common stock.

Our Amended and Restated Bylaws designate courts within the state of Nevada as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our Amended and Restated Bylaws (" *Bylaws*") require that, to the fullest extent permitted by law, and unless the Company consents in writing to the selection of an alternative forum, a state court located within the State of Nevada (or, if no state court located within the State of Nevada has jurisdiction, the federal district court for the District of Nevada), will, to the fullest extent permitted by law, be the sole and exclusive forum for each of the following:

- any derivative action or proceeding brought on behalf of the Company;
- any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company's stockholders;
- any action asserting a claim against the Company or any director or officer or other employee of the Company arising pursuant to any provision of the Nevada Revised Statutes or the Company's Amended and Restated Articles of Incorporation, as amended, or the Amended and Restated Bylaws; or
- any action asserting a claim against the Company or any director or officer or other employee of the Company governed by the internal affairs doctrine.

Because the applicability of the exclusive forum provision is limited to the extent permitted by law, we believe that the exclusive forum provision would not apply to suits brought to enforce any duty or liability created by the Securities Exchange Act of 1934, as amended ("*Exchange Act*"), or any other claim for which the federal courts have exclusive jurisdiction, and that federal courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act of 1933, as amended ("*Securities Act*"). We note that there is uncertainty as to whether a court would enforce the provision and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Although we believe this provision benefits us by providing increased consistency in the application of Nevada law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

You may not be able to hold our securities in your regular brokerage account.

In the case of publicly-traded companies, it is common for a broker to hold securities on your behalf, in "street name" (meaning the broker is shown as the holder on the issuer's records and then you show up on the broker's records as the person the broker is holding for). Due to regulatory uncertainties, certain brokers may not agree to hold securities of companies whose products include hemp-derived CBD for their customers, meaning that you may not be able to take advantage of the convenience of having all your holdings reflected in one place.

You should not rely on an investment in our common stock for the payment of cash dividends.

Because of our previous significant operating losses and because we intend to retain future profits, if any, to expand our business, we have never paid cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. You should not make an investment in our common stock if you require dividend income. Any return on investment in our common stock would only come from an increase in the market price of our stock, which is uncertain and unpredictable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a).
31.2	Certification of the Principal Financial and Accounting Officer pursuant to Rule 13a-14(a) and 15d-14(a).
32.1	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Principal Financial and Accounting Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2020

CHARLIE'S HOLDINGS, INC.

By: /s/ Brandon Stump
Brandon Stump
Chief Executive Officer and Chair of the Board
(Principal Executive Officer)

/s/ David Allen
David Allen
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Brandon Stump, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charlie's Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May15, 2020

/s/ Brandon Stump
Brandon Stump
Chief Executive Officer and Chair of the Board
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David Allen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charlie's Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2020

/s/ David Allen
David Allen
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Charlie's Holdings, Inc. (the " *Company*") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Brandon Stump, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ *Brandon Stump*
Brandon Stump
Chief Executive Officer and Chair of the Board
(Principal Executive Officer)

Date: May15, 2020

Exhibit 32.2

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

In connection with the Quarterly Report of Charlie's Holdings, Inc. (the " *Company*") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, David Allen, Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ *David Allen*
David Allen
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 15, 2020