

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

GROW CAPITAL, INC.

Form: 10-Q

Date Filed: 2020-02-19

Corporate Issuer CIK: 1448558

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

Form 10-Q

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

For the quarterly period ended **December 31, 2019**

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

For the transition period from _____ to _____

000-53548

Commission File Number



GROW CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

86-0970023

(I.R.S. Employer Identification No.)

2485 Village View Drive, Suite 180, Henderson, NV

(Address of principal executive offices)

89074

(Zip Code)

702-830-7919

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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
None	N/A	N/A

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 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 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 (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

246,839,215 shares of common stock outstanding as of February 12, 2020

(Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.)

GROW CONDOS, INC.
TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	36
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	38
Item 4. Mine Safety Disclosures	38
Item 5. Other Information	38
Item 6. Exhibits	38
SIGNATURES	39

**GROW CAPITAL, INC.
AND SUBSIDIARIES
(Formerly Grow Condos, Inc.)
Condensed Consolidated Balance Sheets**

ASSETS	December 31, 2019 (Unaudited)	June 30, 2019*
CURRENT ASSETS:		
Cash	\$ 108,367	\$ 483,430
Subscription receivable	-	150,000
Accounts receivable, net of allowance	126,715	-
Accounts receivable, related parties	441,181	-
Interest receivable	2,116	-
Prepaid expenses	623,698	1,431,796
Due from related party	27,178	16,854
Promissory note receivable	94,951	-
Right to use assets, current portion	11,838	-
Total current assets	1,436,044	2,082,080
Property, plant and equipment, net	62,498	67,772
Intangible assets	200	-
Right to use assets	271,443	-
Assets held for sale	793,806	1,658,503
Deposits	5,367	5,367
TOTAL ASSETS	\$ 2,569,358	\$ 3,813,722
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 267,281	\$ 333,268
Accounts payable, related parties	142,546	-
Accrued liabilities	101,771	270,292
Advances from related parties	158,074	105,000
Unearned revenue	12,410	-
Deferred rent	-	2,676
Deferred income tax liability	31,800	-
Lease liability, current portion	9,468	-
Liability held for sale, current portion	27,112	472,241
Total current liabilities	750,462	1,183,477
Lease liability	277,670	-
Liability held for sale	597,347	597,865
TOTAL LIABILITIES	1,625,479	1,781,342
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value, 50,000,000 and 5,000,000 shares authorized as at December 31, 2019 and June 30, 2019, respectively, none issued and outstanding	\$	\$
Common stock, \$0.001 par value, 500,000,000 shares and 175,000,000 shares authorized, 246,072,703 and 140,744,030 issued, issuable and outstanding at December 31, 2019 and June 30, 2019 respectively.	246,072	140,743
Additional paid-in capital	49,068,799	49,632,970
Accumulated deficit	(48,370,992)	(47,741,333)
Total stockholders' equity (deficit)	943,879	2,032,380
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 2,569,358	\$ 3,813,722

*Derived from audited Financial Statements

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

**GROW CAPITAL, INC.
AND SUBSIDIARIES**
(Formerly Grow Condos, Inc.)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Revenue	\$ 54,884	\$ 2,484	\$ 112,123	\$ 2,484
Revenue, related parties	668,178	77,043	1,123,302	77,043
Total revenues	723,062	79,527	1,235,425	79,527
Cost of sales, nonrelated parties	263,266	34,692	423,824	34,692
Cost of sale, related parties	33,399	21,610	186,354	21,610
Total cost of sales	296,665	56,302	610,178	56,302
Gross profit	426,397	23,225	625,247	23,225
Operating expenses				
General and administrative	66,766	75,033	110,811	97,201
General and administrative, related parties	62,943	5,486	110,442	5,486
Professional fees	176,360	51,177	528,852	84,547
Stock based compensation	503,469	118,504	1,005,107	328,504
Depreciation, amortization and impairment	1,758	67	5,274	134
Total operating expenses	811,296	250,267	1,760,486	515,872
Income (Loss) from operations	(384,899)	(227,042)	(1,135,239)	(492,647)
Other income (expense):				
Gain (loss) on disposal of investment	-	-	-	(5,412)
Interest income	1,724	-	3,066	-
Total other income (expense), net	1,724	-	3,066	(5,412)
Income (loss) from continuing operations	(383,175)	(227,042)	(1,132,173)	(498,059)
Income (loss) from discontinued operations	2,409	20,084	502,514	25,656
Net income (loss)	\$ (380,766)	\$ (206,958)	\$ (629,659)	\$ (472,403)
Basic and diluted net loss per share from continuing operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Basic and diluted net loss per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Basic and diluted net loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Basic and diluted weighted average common shares outstanding	244,722,621	113,832,559	216,874,712	110,439,652

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

**GROW CAPITAL, INC.
AND SUBSIDIARIES
(Formerly Grow Condos, Inc.)
Condensed Consolidated Statements of Changes in Stockholders Equity (Deficit)
(Unaudited)**

	Preferred Shares		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Shareholders Equity
Balance, June 30, 2019	-	-	140,744,030	\$ 140,743	\$ 49,632,970	\$ (47,741,333)	\$ 2,032,380
Shares issued under business combination			110,675,328	110,675	(29,508)		81,167
Private placements			277,778	278	49,722		50,000
Shares issued to Officers, Directors and employees			450,918	451	89,823		90,274
Conversion of accounts payable into stock			146,987	147	20,137		20,284
Shares retired under sale of subsidiary			(9,093,888)	(9,093)	(900,296)		(909,389)
Loss for the period						(248,893)	(248,893)
Balance, September 30, 2019	-	-	243,201,153	243,201	48,862,848	(47,990,226)	1,115,823
Private placements			1,000,000	1,000	49,000		50,000
Shares issued to Officers, Directors and employees			1,074,381	1,074	91,645		92,719
Conversion of accounts payable into stock			797,169	797	65,306		66,103
Loss for the period						(380,766)	(380,766)
Balance, December 31, 2019	-	-	246,072,703	246,072	\$ 49,068,799	\$ (48,370,992)	\$ 943,879

	Preferred Shares		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Shareholders Equity
Balance, June 30, 2018	-	-	94,205,542	\$ 94,205	\$ 44,813,485	\$ (45,336,236)	\$ (428,546)
Private placements			15,392,860	15,393	1,149,607		1,165,000
Shares issued to Officers, Directors and employees			4,000,000	4,000	476,000		480,000
Loss for the period						(265,445)	(265,445)
Balance, September 30, 2018	-	-	113,598,402	113,598	46,439,092	(45,601,681)	951,009
Shares issued to Officers, Directors and employees			237,540	238	28,266		28,504
Loss for the period						(196,492)	(196,492)
Balance, December 31, 2018	-	-	113,835,942	\$ 113,836	\$ 46,467,358	\$ (45,798,173)	\$ 783,021

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

**GROW CAPITAL, INC.
AND SUBSIDIARIES
(Formerly Grow Condos, Inc.)
Condensed Consolidated Statements of Cash Flows
(Unaudited)**

	Six Months Ended	
	December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (629,659)	\$ (472,403)
(Gain) from discontinued operations	(502,514)	(25,656)
Net loss from continuing operations:	(1,132,173)	(498,059)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,274	134
Stock based compensation	1,005,107	328,504
Amortization on right to use assets	1,192	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(3,499)	(12,251)
Accounts receivable	(87,185)	(2,484)
Accounts receivable, related parties	(149,637)	(26,298)
Interest receivable	(2,116)	-
Accounts payable	91,953	3,471
Account payable, related parties	(110,574)	34,693
Accrued expenses	(170,929)	(30,184)
Unearned revenue	(4,160)	74,255
Net cash (used in) in operating activities	<u>(556,747)</u>	<u>(128,219)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from business combination	43,975	-
Purchase of intangible assets	-	(200)
Promissory note receivable	(100,000)	-
Proceeds from promissory note receivable	5,050	-
Due from related party	(10,324)	(44,154)
Net cash (used in) provided by investing activities	<u>(61,299)</u>	<u>(44,354)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (repayment) from related party	(13,121)	-
Proceeds from private placement	250,000	1,165,000
Net cash provided by financing activities	<u>236,879</u>	<u>1,165,000</u>
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Operating activities	12,686	26,511
Investing activities	(2,030)	21,719
Financing activities	(4,552)	(903,385)
Net cash (used) provided by discontinued activities	<u>6,104</u>	<u>(855,155)</u>
Net increase (decrease) in cash	(375,063)	137,272
Cash at beginning of period	483,430	13,891
Cash at the end of the period	<u>\$ 108,367</u>	<u>\$ 151,164</u>

Supplemental Disclosure of Cash Flows Information:

Cash paid for interest, discontinued activities	\$ 17,980	\$ 18,416
Cash paid for income taxes	\$ -	\$ -
Cash paid for operating lease	\$ 17,541	\$ -

Non-cash Investing and Financing Activities:

Stock issued for settlement of accounts payable	\$ 76,433	\$ -
Stock returned from sale of WCS	\$ 909,389	\$ -
Assets acquire, net of liabilities, Bombshell	\$ 81,167	\$ -
Repayment of mortgage under discontinued operation from escrow	\$ -	\$ 252,141

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

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Description of Business

Grow Capital, Inc. (the "Company," "we," or "us") (f/k/a Grown Condos, Inc.) was incorporated on October 22, 1999, in the State of Nevada.

Our former wholly owned subsidiary, WCS Enterprises, Inc. ("WCS") is an Oregon limited liability company which was formed on September 9, 2013 with operations beginning in October 2013. WCS is a real estate purchaser, developer and manager of specific use industrial properties providing "Condo" style turn-key aeroponics grow facilities to support cannabis farmers. WCS owns, leases, sells and manages multi-tenant properties so as to reduce the risk of ownership and reduce costs to tenants and owners. WCS currently owns a condominium property in Eagle Point, Oregon (the "Eagle Point Property"). On September 30, 2019, we sold WCS to the Wayne A. Zallen Trust u/a/d/ 10/24/2014 (the "Zallen Trust"), of which Wayne Zallen, our former CEO and Chairman, is the trustee and a beneficiary. See Note 5 for further information.

Our wholly owned subsidiary, Smoke on the Water, Inc. was incorporated on October 21, 2016, in the State of Nevada. Smoke on the Water is focused on operating properties in the RV and campground rental industry and currently owns the Lake Selmac Resort located at 2700 Lakeshore Drive, Selma, Oregon (the "Lake Selmac Property").

Our wholly owned subsidiary Bombshell Technologies, Inc. ("Bombshell"), was formed as Bombshell Technologies, LLC on November 5, 2018 and converted into a corporation on June 24, 2019. We acquired Bombshell on July 23, 2019 (See Note 4). Bombshell is a full-service design and software development company focused on developing and selling software to financial services firms and advisors and is the first acquisition as part of our strategic shift into the financial technology ("FinTech") sector and related sectors.

On June 22, 2018, the Board of Directors of the Company approved an amendment to our articles of incorporation to increase our authorized capital to 180,000,000 shares, consisting of 175,000,000 shares of common stock ("Common Stock"), par value \$0.001, and 5,000,000 shares of preferred stock ("Preferred Stock"), par value \$0.001 (the "Recapitalization") and to change the name of the Company to "Grow Capital, Inc." The Company filed articles of amendment with the State of Nevada to effect the aforementioned changes on July 10, 2018 and August 28, 2018, respectively. The Company received approval from the Financial Industry Regulatory Authority ("FINRA") for the above noted corporate actions on August 8, 2019.

On July 23, 2019, and effective July 25, 2019, the Board of Directors of the Company and the holders of our outstanding capital stock having a majority of the voting power, respectively, adopted resolutions to amend and restate our articles of incorporation to increase our authorized capital to 550,000,000 shares, consisting of 500,000,000 shares of Common Stock and 50,000,000 shares of Preferred Stock. The effective date of the aforementioned actions was August 29, 2019.

In connection with its name change, the Company adopted a business plan focused on shifting the Company's strategy away from rental activities focused in the cannabis industry and into the FinTech sector and related sectors. In connection with this strategy, the Company hired a new Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and appointed a new chairman of the Company's board of directors (the "Board"), all of whom have significant experience in the FinTech sector. The Company intends to acquire FinTech companies, such as Bombshell (see Note 4), with a clear niche and strong leadership and use its experience and understanding of the FinTech sector and access to the public markets to help its acquisitions grow. The Company is currently in the process of identifying and pursuing suitable acquisitions. In connection with the shift in the Company's strategy away from rental activities focused in the cannabis industry, the Company sold WCS on September 30, 2019, and has determined to divest Smoke on the Water, which it is currently actively marketing. In connection with these efforts, management of the Company has determined it is appropriate to include the operations of WCS and Smoke on the Water in this report as Assets and Liabilities Held for Sale (See Note 5). As the Company moves away from the cannabis industry and into financial technology and related sectors, Grow Capital expects to identify suitable acquisitions, complete those acquisitions, and grow those companies. Any potential acquisitions or divestitures remain subject to final agreements, due diligence, and typical closing conditions.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Description of Business

Going Concern

During the three and six months ended December 31, 2019, the Company reported a net loss of \$380,766 and \$629,659, respectively. Working capital totaled approximately \$159,000 (after removing prepaid stock-based compensation) with approximately \$108,000 of cash on hand. During the three- and six-month periods ended December 31, 2018, the Company reported a net loss of \$196,492 and \$461,937, respectively. The Company believes that as of December 31, 2019 its existing capital resources are not adequate to enable it to fully execute its business plan, including the acquisition of additional operations complementary to its recently acquired subsidiary, Bombshell Technologies. While the Company's subsidiary provided approximately \$600,000 in gross profit to offset operational overhead in the period, revenues are presently not sufficient to meet the Company's ongoing expenditures. The Company is actively working to increase the customer base and gross profit in Bombshell Technologies in order to achieve net profitability by the close of fiscal 2020. These growth plans include the acquisition of several new customers, an increase to users currently subscribed to our software, as well as increased sales of customization services to new and existing customers. The Company intends to rely on sales of our unregistered common stock, loans and advances from related parties to meet operational shortfalls until such time as we achieve profitable operations. If the Company fails to generate positive cash flow or obtain additional financing, when required, the Company may have to modify, delay, or abandon some or all of its business and expansion plans, and potentially cease operations altogether. Consequently, the aforementioned items raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The interim unaudited financial information has been prepared and presented in conformity with accounting principles generally accepted in the United States applicable to interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. The interim financial information has been prepared on a condensed basis, such that certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the Annual Financial Statements included in the Form 10-K filed on October 15, 2019 at www.sec.gov. These interim financial statements include all adjustments that, in the opinion of management, are necessary in order to make the financial statements not misleading.

Consolidation

These consolidated financial statements include the accounts of Grow Capital, Inc. and its wholly owned subsidiaries, WCS (up until disposal in September 2019), Bombshell Technologies LLC, and Smoke on the Water, as of December 31, 2019. All significant intercompany accounting transactions have been eliminated as a result of consolidation. In addition to consolidation for the six months ended December 31, 2019, financial results for the six months ended December 31, 2018 are "combined" with respect to the operations of Bombshell Technologies, LLC under the requirements of ASC 850-50-45, which results impact the statements of profit and loss and statements of cash flows to include operations of Bombshell Technologies LLC as though it had been acquired on inception.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that it is at least reasonably possible that the estimates of amounts realizable upon our properties currently for sale at the date of the financial statements will change in the near term due to one or more future confirming events and the effect of the change would be material to the financial statements.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

For financial accounting purposes, cash and cash equivalents are considered to be all highly liquid investments with a maturity of three (3) months or less at the time of purchase.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2019 and June 30, 2019, the Company had \$0 and \$212,985 in excess of the FDIC insured limit, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time the accounts receivable are beyond the contractual payment terms, previous loss history, and the customer's current ability to pay its obligation. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, the Company records a charge to the allowance to reduce the customer's related accounts. During the period to December 31, 2019, the allowance for doubtful accounts totaled approximately \$15,000.

Leases, Lease Receivables and deferred rent

Upon adoption of ASU 2016-02, "Leases," in the first quarter of fiscal year ended June 30, 2020, the Company elected not to recognize leases with a term less than one year on its balance sheet. Operating lease right-of-use (ROU) assets and their corresponding lease liabilities are recorded based on the present value of lease payments over the expected remaining lease term. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Company utilizes its incremental borrowing rates, which are the rates incurred to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

Lease receivables are recognized when rents are due, and for the straight-line adjustment to rents over the term of the lease less an allowance for expected uncollectible amounts. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer's willingness or ability to pay, the Company's compliance with lease terms, the effect of general economic conditions and the ongoing relationship with the customer. Accounts with outstanding balances longer than the payment terms are considered past due. We do not charge interest on past due balances. The Company writes off lease receivables when it determines that they have become uncollectible after all reasonable collection efforts have been made. If we record bad debt expense, the amount is reflected as a component of operating expenses in the statements of operations.

Intangible Assets

The Company's intangible assets consist of intellectual property.

Investment In and Valuation of Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation and amortization. Amounts capitalized to real estate assets consist of the cost of acquisition (excluding acquisition related expenses), construction costs, and mortgage interest during the period the facilities are under construction and prior to readiness for occupancy, and any tenant improvements, major improvements and betterments that extend the useful life of the real estate assets and leasing costs. All repairs and maintenance are expensed as incurred.

The Company is required to make subjective assessments as to the useful lives of its depreciable assets. The Company considers the period of future benefit of each respective asset to determine the appropriate useful life of the assets. Real estate assets, other than land, are depreciated on a straight-line basis over the estimated useful life of the asset.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

The estimated useful lives of the Company's real estate assets by class are generally as follows:

Land	Indefinite
Buildings	40 years
Tenant improvements	Lesser of useful life or lease term
Intangible lease assets	Lease term

Impairment of long-lived assets

The Company monitors its long-lived assets and finite-lived intangibles for indicators of impairment. If such indicators are present, the Company assesses the recoverability of affected assets by determining whether the carrying value of such assets is less than the sum of the undiscounted future cash flows of the assets. If such assets are found not to be recoverable, the Company measures the amount of such impairment by comparing the carrying value of the assets to the fair value of the assets, with the fair value generally determined based on the present value of the expected future cash flows associated with the assets (See Note 4).

Share-based compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Unregistered stock awards are measured based on the fair market values of the underlying stock on the dates of grant. For service type awards, share-based compensation expense is recognized on a straight-line basis over the period during which the employee is required to provide service in exchange for the entire award. For awards that vest or begin vesting upon achievement of a performance condition, the Company estimates the likelihood of satisfaction of the performance condition and recognizes compensation expense when achievement of the performance condition is deemed probable using an accelerated attribution model.

The Company capitalizes the cost of issuance grants that cover a period of employment or consulting agreement under contract or performance obligation related to future performance and amortizes the compensation related to these contracts ratably over the period of employment or at percentage of completion or other appropriate method for future performance grants. There are no issuance grants outstanding with a performance term longer than one year at December 31, 2019 and June 30, 2019.

Prepaid expenses for the six months ended December 31, 2019 and fiscal year ended June 30, 2019 include unamortized costs of issuance grants under employment and consulting contracts totalling \$568,299 and \$1,380,459, respectively.

Fair Value of Financial Instruments

ASC 820, Fair Value Measurements, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied which may involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and credit carryforwards. Deferred tax assets and liabilities are measured at rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. A valuation allowance is recorded when it is not more likely than not that all or a portion of the net deferred tax assets will be realized.

In the quarter ended September 30, 2019, the Company issued a significant number of new shares in its acquisition of Bombshell Technologies, Inc. (see Note 4) and the cancellation of then outstanding shares upon the sale of WCS Enterprises, LLC (see Note 5). The effect of these issuances and cancellations is that most likely, the Company experienced the requisite change of control as promulgated under the US Internal Revenue Code section 382. The effect of this will be that going forward, the ability of the Company to utilize the US Federal net operating loss carryforwards of Grow Capital, Inc. from prior to these transactions will be limited in its usage. In order to determine the specific effect, the Company must perform the computations required under the Internal Revenue Code, which have not yet been performed. The Company expects it will perform the required computations once its evident that profits are likely.

Net (loss) income per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period and contains no dilutive securities. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. For the fiscal year ended June 30, 2019 and 2018, all potentially dilutive securities are anti-dilutive due to the Company's losses from operations.

All dilutive common stock equivalents are reflected in our earnings (loss) per share calculations. Anti-dilutive common stock equivalents are not included in our earnings (loss) per share calculations.

The following table sets forth the number of potential shares outstanding as of December 31, 2019 and June 30, 2019:

Options	500,000
Total potential shares	<u>500,000</u>

Reclassification

Certain prior period balances have been reclassified to conform to the current period presentation in the Company's consolidated financial statements and the accompanying notes.

Recent accounting pronouncements

Management has considered all recent accounting pronouncements issued and their potential effect on our financial statements. The Company's management believes that these recent pronouncements will not have a material effect on the Company's financial statements.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – Revenue Recognition under ASC 606

The Company has adopted accounting standard, *ASC 606 “Revenue from Contracts with Customers”* and all related amendments to the new accounting standard to contracts.

Revenues from contracts with customers are recognized when control of promised goods and services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company recognizes revenue using the five-step model as prescribed by ASC 606:

- 1) Identification of the contract, or contracts, with a customer;
- 2) Identification of the performance obligations in the contract;
- 3) Determination of the transaction price;
- 4) Allocation of the transaction price to the performance obligations in the contract; and
- 5) Recognition of revenue when or as, the Company satisfies a performance obligation.

When a contract with a customer is signed, the Company assesses whether collection of the fees under the arrangement is probable. The Company estimates the amount to reserve for uncollectible amounts at the end of each reporting period based on the aging of the contract balance, current and historical customer trends, and communications with its customers. These reserves are recorded against the related accounts receivable.

The transaction price is the consideration that the Company expects to receive from its customers in exchange for its products or services. In determining the allocation of the transaction price, the Company identifies performance obligations in contracts with customers, which may include subscriptions to software and services, support, professional services and customization. In the case of the Company's software contracts and support services prices are predetermined based on the specific terms of the contract either in flat fee customization/license fee charges or as hourly support and/or software customization charges. Charges relative to license fees are amortized over the term of the license. Charges relative to customization of the software are charged over the term of the scope of work on a percentage of completion basis. Charges relative to support and ongoing services and professional fees are charged when incurred and control has been transferred or the work has been completed. License fees and customization of software

License fees are charged as flat fees which are amortized over the term of the contract. For contracts with elements related to customized software solutions and certain build-outs or software systems that require significant modification or customization, the Company will recognize revenue using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on completion of milestones under a scope of work or based on total estimated cost of work and percentage completion as at the balance sheet date.

Software Revenue

The Company generates software revenue monthly on a single fee per subscribed user basis. The Company recognizes software revenue monthly on a per user for each user that is able to deploy software and provided all revenue recognition criteria have been met. If the revenue recognition criteria has not been met, the revenue is deferred or not recognized.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – Revenue Recognition under ASC 606 (continued)

Customization, support and maintenance

Revenue from the Company's customization of software to meet a particular client's needs is recognized on a percentage of completion basis over the term of the customization work and until control of the goods or services is transferred to the customer or such date the customer agrees the scope of work has been completed and the intended functionality of the software is complete and able to perform the desired service. Support and maintenance revenue is generated from recurring monthly support and is invoiced monthly based on hourly fees at predetermined rates based on each customer contract.

The Customer is credited a certain number of services hours monthly based on the numbers of users actively subscribed to the software which amounts offset any monthly user fees.

Support and maintenance services include e-mail and telephone support, unspecified rights to software fixes and product updates and upgrades and enhancements available on a when-and-if available basis.

Professional services and other

Professional services and other revenue is generated through services including onsite training, product implementation and other similar services. Professional services are generally flat fee services based on a number of hours or scope of work for each specific service. Depending on the services to be provided, revenue from professional services and other is generally recognized at the time of delivery when the services have been completed and control has been transferred.

Unearned Revenue

Unearned revenue represents billings or payments received in advance of revenue recognition and is recognized upon transfer of control. Balances consist primarily of license fees being amortized over the term of the customer contract and customization services which have not yet been concluded and are being deferred using the percentage-of-completion method.

Condominium rentals

We recognize rental income from the lease of our condo spaces ratably over the term of the rental contracts dependent upon the total cash payable to the Company by the tenant under the lease contract, which takes into account any free rental periods or rent escalation clauses granted in the contracts. In the event that tenants continue to rent past the termination date of rental contracts, rents are negotiated and recorded on a month-to-month basis.

Campground space rentals and concession sales

Because we rent to individuals who plan on engaging in activities that include the consumption of cannabis products while they stay at our campground facilities, we do not document our transactions for the sale of concession items or space or equipment rentals at the facility. We therefore record our revenue on a cash basis.

Note 4 – Merger

On July 23, 2019, (the "Closing Date"), the Company acquired Bombshell, a Nevada corporation, pursuant to a stock exchange agreement (the "Exchange Agreement"), dated June 26, 2019, by and between Bombshell, the shareholders of Bombshell (the "Bombshell Holders"). At the Closing, Bombshell became a wholly-owned subsidiary of the Company. Joel Bonnette, the current President and Chief Executive Officer of Bombshell, now serves as the Chief Executive Officer of Bombshell.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Merger (continued)

Pursuant to the Amendment, at the Closing, the Company acquired 100% of the outstanding shares of Bombshell (the “Bombshell Shares”) in exchange for the Bombshell Holders receiving the right to receive 110,675,328 shares (the “Consideration Shares”) of unregistered shares of the Company’s Common Stock on a pro rata basis (the “Exchange”), 33,000,000 of which were issued to the Bombshell Holders (the “Closing Shares”) at the Closing on a pro rata basis. The remaining 77,675,328 Consideration Shares (the “Secondary Shares”) were issued on September 3, 2019, to the Bombshell Holders upon the Company filing an effective amended and restated articles of incorporation (the “Charter Amendment”) that increased the number of authorized shares of Common Stock. The Bombshell Holders are also eligible to receive earn-out consideration of up to an additional 36,769,215 shares of Common Stock (the “Earn-out Shares”) earnable in tranches of 12,256,405 shares of Common Stock in each of the second, third and fourth years after the Closing, based on whether Bombshell is able to meet certain Earnings Before Interest and Taxes thresholds in each year. The Bombshell Holders include certain limited liability companies owned by (i) Jonathan Bonnette, (ii) Joel Bonnette, and (iii) Terry Kennedy.

The acquisition of Bombshell was not accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Due to the related party and common control relationships held between Bombshell and Grow Capital, Inc., the assets and liabilities of Bombshell will transfer over to the Company at their historical carrying values.

The following table provides information as of July 23, 2019 of the assets acquired and the liabilities assumed in the merger:

Assets	
Cash	\$ 43,975
Accounts receivable	36,079
Accounts receivable, related parties	294,995
Intangibles and other assets	200
Total Assets	\$ 375,249
Liabilities	
Accounts payable and accrued liabilities	\$ 60,605
Accounts payable and accrued liabilities, related parties	118,912
Advances, related parties	66,195
Unearned revenue	9,070
Unearned revenue, related parties	7,500
Customer deposits, related parties	-
Deferred income tax liabilities	31,800
Total liabilities	294,082
Net Assets	\$ 81,167
Consideration: 110,675,328 shares	110,675
Additional paid in capital	\$ (29,508)

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Assets Held for Sale

(1) Assets in Oregon within the Pioneer Business Park

In April 2016, the Company purchased a parcel of land near Eugene, Oregon within the Pioneer Business Park (the "Pioneer Property") from a private seller for the amount of \$326,629 plus closing costs. As part of the purchase, the Seller financed through a note payable \$267,129 of the purchase price. The intent of the Company was to build an industrial condominium building on the parcel, akin to the Eagle Point Property. The Company was unable to secure additional funding via debt or equity and due to the hostility of the local county government towards the intended operations of the tenants, and consequently, the Company abandoned those plans in late calendar 2017.

In December 2017, the Company made the decision to put the Pioneer Property up for sale, retained a sales agent and listed the Pioneer Property for sale at a purchase price of \$399,000. At that time the Company impaired all costs incurred towards development of the land which amounted to \$31,843. The financial statements show the value of the land and the related mortgage under Assets Held for Sale and Liabilities Held for Sale on the balance sheet as of June 30, 2018, respectively. In September 2018, the Company completed the sale of the Pioneer Property for a gross sales price of \$349,000. After payment of all closing costs, the Company recorded a loss on sale of approximately \$5,400.

(2) WCS Enterprises, Inc.

In the quarter ended March 31, 2019, the Company began to actively market WCS for sale and has begun negotiations with certain parties for the sale of WCS, subject to diligence, negotiation of a purchase agreement and fulfillment of typical closing conditions. In connection with these efforts, management determined that it was appropriate to classify WCS as Assets Held for Sale.

On September 30, 2019, the Company entered into a membership interest purchase agreement with the Zallen Trust pursuant to which the Company sold all of the Company's membership interests in WCS for an aggregate purchase price of \$782,450. The Zallen Trust paid the purchase price by transferring to the Company 8,693,888 shares of the Company's Common Stock, valued at \$0.09 per share. The Purchase Agreement also provided that Mr. Zallen transfer to the Company an additional 400,000 shares of Common Stock to settle \$36,000 in back rent owed at the time of the sale. The Company retired all of the shares received as a result of the transaction. In connection with the sale of WCS, the Company and Mr. Zallen entered into a separation and release of claims agreement pursuant to which the Company and Mr. Zallen provided a mutual release of claims against the other party and such party's affiliates, including all claims related to Mr. Zallen's service as an officer, employee, and director of the Company. The release of claims by Mr. Zallen resulted in the forgiveness of salary accruals of approximately \$367,000 for services provided up to June 30, 2018.

After payment of all closing costs, the Company recorded a gain on sale of approximately \$492,000. (See detail below)

(3) Smoke on the Water

On September 4, 2019 the Company entered into a 90-day listing agreement for the sale of the Smoke on the Water site location for an offering price of \$850,000, with expected 6% sales commission. This sales contract was extended in December 2019 for a further period under the same terms and conditions, expiring in March 2020. In connection with these efforts, management has determined that it is appropriate to classify the Smoke on the Water site location as Assets Held for Sale, and all related operations are classified as discontinued. At June 30, 2019 the Company recorded an impairment change of \$112,000 based on the expected sales price less costs of sale compared to the carrying value at June 30, 2019.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Assets Held for Sale (continued)

(4) Discontinued Operation:

(a) The Results of the Discounted Operations which included the results of Smoke on the Water and WCS are as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net revenues	\$ 40,213	\$ 91,715	\$ 140,912	\$ 200,188
Operating expenses				
Cost of revenue	4,359	19,684	36,253	47,914
General and administrative	23,583	35,344	65,744	81,099
Depreciation, amortization and impairment	982	7,459	10,860	14,815
Total operating expenses	28,924	62,487	112,857	143,828
Income (Loss) from operations	11,289	29,228	28,055	56,360
Gain on sale	-		492,439	-
Interest expense	(8,880)	(9,144)	(17,980)	(30,704)
Income (loss) from discontinued operations	\$ 2,409	\$ 20,084	\$ 502,514	\$ 25,656

(b) Assets and liabilities disposed of are as follows

	September 30, 2019
Assets:	
Lease receivable	\$ 40,804
Prepaid expenses	5,152
Property, plant and equipment, net	809,281
Other assets	6,150
Total Assets	\$ 861,387
Liabilities:	
Accrued liabilities	367,367
Other liabilities	79,100
Total Liabilities	446,467
Net Assets	\$ 414,920
Consideration:	
Purchaser return 9,093,888 shares of common stock, FMV at \$0.10	\$ 909,389
Payment on certain items during closing	(2,030)
Total consideration	\$ 907,359
Gain on sale of WCS	\$ 492,439

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Assets Held for Sale (continued)

(4) Discontinued Operation:

(c) Groups of assets and liabilities held for sale as of December 31, 2019 and June 30, 2019

	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
ASSETS:		
Lease receivable	\$ 5,903	\$ 32,307
Prepaid expenses	1,446	13,449
Property, plant and equipment, net	785,957	1,606,097
Other assets	500	6,650
TOTAL ASSETS	\$ 793,806	\$ 1,658,503
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 23,652	\$ 385,647
Mortgage	600,807	605,359
Other liabilities	-	79,100
TOTAL LIABILITIES	624,459	1,070,106
NET ASSETS	\$ 169,347	\$ 588,397

(5) Mortgages Payable

(i) Mortgage related to assets held for sale on Pioneer Property and Eagle Mountain Property

	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Liability held for sale – Mortgages on Eagle Mountain Property	\$ -	\$ -
Liability held for sale – Mortgage on Pioneer Property	-	-
	\$ -	\$ -

In 2013, upon the acquisition of the Eagle Point Property, WCS assumed the sellers' mortgage from People's Bank of Commerce, NA ("People's Bank"). The original principal amount of the mortgage was \$930,220, had an interest rate equal to People's Bank's prime rate plus 1.75%, required 58 monthly payments of \$5,946 and required a balloon payment of \$802,294 on June 28, 2018, the maturity date. The mortgage was secured by liens against certain properties owned by the seller. In August 2018, the Company paid the mortgage in full. As of December 31, 2019, and June 30, 2019, the balance on the mortgage was \$0.

In 2013, after the acquisition of the Eagle Point Property, WCS entered into a second mortgage with People's Bank for the amount of \$120,000. The mortgage had an interest rate equal to People's Bank's prime rate plus 3%, required 56 monthly payments of \$883, and required a balloon payment of \$104,329 on October 15, 2018, the maturity date. The mortgage was collateralized by a deed of trust and assignment of rents with the seller and WCS in the amount of \$120,000. In August 2018, the Company paid the mortgage in full. As of December 31, 2019, and June 30, 2019, balance on the mortgage was \$0.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Assets Held for Sale (continued)

(5) Mortgages Payable (continued)

- (i) Mortgage related to assets held for sale on Pioneer Property and Eagle Mountain Property (continued)

In April 2016, the Company acquired the Pioneer Property and entered into a mortgage with the seller for the amount of \$267,129. The mortgage originally had an interest rate of 6% per annum and a maturity date of the earlier of (a) October 1, 2017 or the date construction begins on the condominium building proposed to be built. In October 2017, the Company entered into an amended mortgage by making a principal payment of \$15,000 and financing the remaining balance of \$252,129. The amended mortgage bears interest at the rate of 6% per annum and required interest only monthly payments of \$1,261 from November 2017 through June 2018 with the remaining amount due in the form of a final balloon payment in July 2018. As noted above in Note 4, in September 2018, the Company closed on the sale of the parcel of land acquired with financing provided by the mortgage. As a condition of the sale, the mortgage was fully repaid at closing. As of December 31, 2019, and June 30, 2019, the balance on the mortgage was \$0.

- (ii) Mortgage related to assets held for sale on Smoke on the Water

	December 31, 2019	June 30, 2019
Liability held for sale on Smoke on the Water	\$ 600,807	\$ 605,359

In March 2017, the Company acquired the Lake Selmac Property. Upon closing, the Company entered into mortgage payable with the seller in the amount of \$625,000 with a maturity date of March 6, 2022. The mortgage had an interest rate of 5% per annum covering the monthly payments of \$3,355 for the initial 12 months, which increased to 6% per annum for the monthly payments of \$3,747 for the following 48 months. Upon maturity, the remaining balance due on the note is required to be paid through a balloon payment. During the six months ended December 31, 2019, the Company paid \$4,552 to the principal of mortgage and \$17,980 to the interests of the mortgage. As of December 31, 2019, and June 30, 2019, the balance on the mortgage was \$600,807 and \$605,359, respectively. The note is unsecured.

As of December 31, 2019, the approximate future aggregate principal payments in respect of our current obligations were as follows:

2020	\$	8,377
2021		8,904
2022		583,526
	\$	600,807

Note 6 – Property and Equipment, Net

Property and improvements consisted of the following as of December 31, 2019 and June 30, 2019:

	December 31, 2019	June 30, 2019
Leaseholder improvement	\$ 67,644	\$ 67,644
Furniture and Fixtures	1,875	1,875
	69,519	69,519
Less: accumulated depreciation and impairment	(7,021)	(1,747)
	\$ 62,498	\$ 67,772

Depreciation expense (excluding impairment) amounted to \$1,758 and \$5,274, for the three and six months ended December 31, 2019, respectively.

Depreciation expense (excluding impairment) amounted to \$67 and \$134, for the three and six months ended December 31, 2018, respectively.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Promissory Note Receivable

On July 8, 2019, the Company entered into a non-binding letter of intent (the “LOI”) to acquire Encompass More Group, Inc. (“Encompass”), a Nevada corporation. In connection with the LOI, Encompass issued a promissory note (the “Note”) to the Company pursuant to a loan agreement (the “Loan Agreement”), dated July 22, 2019, by and between Encompass and the Company, in exchange for a loan of \$100,000 (the “Loan”). Pursuant to the Loan Agreement, the proceeds of the Loan will be used by Encompass for working capital and general corporate purposes. The Note has a twelve-month term, an interest rate of 5.0%, and is payable in monthly installments of \$2,000, with all remaining principal and interest due on the maturity date, unless paid earlier by Encompass. During the six months ended December 31, 2019, the Company received \$6,000 towards monthly installments. We recorded interest income of \$1,724, and \$3,066 during the three and six months ended December 31, 2019.

The Board of Directors have subsequently determined not to proceed with the acquisition as contemplated under the LOI.

Note 8 – Accrued Liabilities

Accrued liabilities at December 31, 2019 and June 30, 2019 consist of the following:

	December 31, 2019	June 30, 2019
Accrued salaries and wages	\$ 68,609	\$ 113,823
Accrued expenses	33,162	156,469
	<u>\$ 101,771</u>	<u>\$ 270,292</u>

Note 9 – Capital Stock

On June 22, 2018, the Board of Directors of the Company approved the Recapitalization, which increased the Company’s authorized Common Stock from 100,000,000 to 175,000,000 shares, effective July 10, 2018. As of June 30, 2019, the Company’s authorized stock consisted of 175,000,000 shares and 5,000,000 shares of Preferred Stock. As of August 29, 2019, the Company increased its authorized shares to 500,000,000 shares of Common Stock and 50,000,000 shares of Preferred Stock, respectively.

Common Stock

Share issuances during the six months ended December 31, 2019:

During the six months ended December 31, 2019, the Company issued 1,277,778 shares of unregistered Common Stock in respect to private placements for total gross proceeds of \$100,000.

During the six months ended December 31, 2019, the Company issued a total of 1,525,299 shares to officers and directors as part of their board compensation package. The Company valued those issuances at the closing price of the Company’s stock as traded on the OTCMarket on the date of grant and recorded stock-based compensation of \$182,993.

During the three months ended September 30, 2019, the Company issued a total of 110,675,328 shares to acquire Bombshell Technologies, LLC. (See Note 4).

During the six months ended December 31, 2019, the Company issued 944,156 fully vested unregistered shares of Common Stock to settle certain liabilities. The Company valued those issuances at the closing price of the Company’s Common Stock as traded on the OTCMarkets on the date of grant and recorded a \$76,433 liability settlement and stock-based compensation of \$9,954 on the statement of operations.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Stock (continued)

Common Stock (continued)

On September 30, 2019, the Company retired 9,093,888 shares of the Company's Common Stock. The Company valued those retired shares at the closing price of the Company's Common Stock as traded on the OTCMarkets and recorded \$869,380 as sale price of WCS and \$40,000 as related to offset lease receivable. (See Note 5).

Preferred Stock

In 2015, the Company designated all 5,000,000 shares of its Preferred Stock as Series A Convertible Preferred Stock (the "Series A Preferred"), par value \$0.001. The Series A Preferred shareholders voted together with the Common Stock as a single class and were entitled to receive all notices relating to voting that are required to be given to the holders of the Common Stock. The holders of shares of Series A Preferred were entitled to five votes per share and each share was convertible by the holder into five shares of Common Stock. All of the Series A Preferred shares were issued and converted into Common Stock in November 2015.

Equity Incentive Plan

In December 2015, the Company adopted the 2015 Equity Incentive Plan (the "Incentive Plan") with a term of 10 years. The Incentive Plan allows for the issuance up to a maximum of 2 million shares of Common Stock, options exercisable into Common Stock of the Company or stock purchase rights exercisable into shares of Common Stock of the Company. The Incentive Plan is administered by the Board unless a separate delegation to an administrator is made by the Board. Options granted under the Incentive Plan carry a maximum term of 10 years, except to a grantee who is also a 10% beneficial owner at the time of grant, in which case the maximum term is 5 years. In addition, exercise prices of options granted must be within a certain percentage of the closing price on date of grant depending on the level of beneficial ownership of Common Stock of the Company by the grantee. All vesting conditions are set by the Board or a designated administrator. In December 2015, the Company filed a registration statement on Form S-8 covering all shares issued or issuable under the Incentive Plan. The Company has granted options to purchase 2 million shares under the Incentive Plan during April 2016, 1.5 million of which have been exercised and 0.5 million of which have vested and remain outstanding. There are no remaining shares available under the Incentive Plan.

Stock Plan

In December 2015, the Company adopted the 2015 Stock Plan (the "Stock Plan"). As a condition of adoption of the Stock Plan, the Company filed a registration statement on Form S-8 in December 2015 to register the shares issued under the Stock Plan. The Stock Plan allows for the issuance of up to a maximum of 2 million shares of Common Stock of the Company. The Stock Plan is administered by the Board unless a separate delegation to an administrator is made by the Board. The Stock Plan shall continue in effect until it is terminated by the Board or all shares are issued pursuant to the Stock Plan. The Company has not granted any shares under the Stock Plan.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Stock (continued)

Options

A summary of the change in stock purchase options outstanding for the periods ended December 31, 2019 and 2018 is as follows:

	Options Outstanding	Exercise Price	Weighted Average Grant Date Fair Value	Remaining Contractual Life (Years)
Balance – June 30, 2018	500,000	\$0.40	\$0.52	2.83
Options issued	-	-	-	-
Options expired	-	-	-	-
Options exercised	-	-	-	-
Balance – June 30, 2019	500,000	\$0.40	\$0.52	1.83
Options issued				
Options expired				
Options exercised				
Balance – December 31, 2019	500,000	\$0.40	\$0.52	1.58

There were no unvested options outstanding during the years ended June 30, 2019 and 2018. Options outstanding had intrinsic value as of June 30, 2019 and 2018 of \$nil. In the year ended June 30, 2016 the Company issued an option with no term attached. Of the original option, 500,000 remain outstanding.

Note 10 – Related Party Transactions

- (1) Bombshell Technologies, LLC

Revenue

The following table summarizes the revenue from the Company's related parties:

	Three Months Ended	Six Months Ended
	December 31, 2019	
Appreciation Financial, Corp (1)	\$ 223,753	\$ 391,089
Mpower Group (1)	123,372	123,372
Public Employee Retirement Assistance	65,138	139,928
Superior Performers Inc. (1)	255,915	468,913
Grand Total	<u>\$ 668,178</u>	<u>\$ 1,123,302</u>

(1) The Company had a significant concentration of revenue from these three customers totaling 90% and 88% of gross revenues during the three and months ended December 31, 2019, respectively. Related entities are controlled by over 5% shareholders of the Company and/or officer/directors of the Company.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Related Party Transactions (continued)

(1) Bombshell Technologies, LLC (continued)

Revenue (continued)

The following table summarizes the accounts receivable from the Company's related parties:

	December 31, 2019
Appreciation Financial, LLC (1)	\$ 119,870
FPS GROUP, LLC	-
Grow Capital, Inc.	-
Mpower (1)	123,372
Public Employee Retirement Assistance	34,843
Superior Performers Inc (1)	163,096
Total	\$ 441,181

(1) The Company had a significant concentration of accounts receivable from these three customers totaling 92% and 78% of total accounts receivable respectively as at December 31, 2019 and June 30, 2019, respectively. Related entities are controlled by over 5% shareholders of the Company and/or officer/directors of the Company.

Costs of Goods and Commissions Fees

The following table summarizes the Costs of Sales – related parties:

	Three Months Ended December 31, 2019	Six Months Ended December 31, 2019
Ambiguous Holdings, LLC (1)	\$ 5,140	\$ 7,555
Trendsic Corporation Inc. (1)	28,259	178,799
Total	\$ 33,399	\$ 186,354

(1) The Company had a significant concentration of total costs of goods sold from these two related party vendors totaling 11% and 30% of costs of goods sold in the three and six months ended December 31, 2019, respectively.

The following table summarizes expense related to commission fees included as General and administrative – related parties:

	Three Months Ended December 31, 2019	Six Months Ended December 31, 2019
Zeake, LLC	\$ 62,943	\$ 110,442

The following table summarizes accounts payable to the Company's related parties:

	December 31, 2019
Trendsic Corporation Inc.	\$ 61,948
Zeake, LLC	80,598
	\$ 142,546

Advances

As of December 31, 2019, and June 30, 2019, Bombshell Software had made non-interest bearing cash advances in the cumulative amount of \$53,074 and \$66,195, respectively.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Related Party Transactions (continued)

(2) WCS

Until its sale of WCS on September 30, 2019, the Company was leasing units in the building located at the Eagle Point Property. The building has approximately 15,000 square feet and is divided into four 1,500 square foot condo style grow rooms, 1,500 square feet of office space which is currently being offered for lease, and one 7,500 square foot grow facility. The four grow rooms are currently being offered for lease, and the grow facility is under lease to a company controlled by our former CEO and Chairman.

The lease for the grow facility was entered into by the prior owner before the purchase of the Eagle Point Property by WCS in 2013. The lease term for the grow facility began once the tenant improvements were completed and the premises were occupied in fiscal 2017 and continues for a period of 36 months. The lease on the grow facility commenced in fiscal 2017. Revenue recorded in three and six months ended December 31, 2019 included in discontinued operations to related parties accounted to \$14,400. Revenue recorded in three and six months ended December 31, 2018 included in discontinued operations to related parties accounted to \$14,400 and \$28,800, respectively.

(3) Grow Capital

On July 1, 2018, Wayne Zallen resigned as the President and CEO of the Company and David Tobias resigned his position as a member of the Board. On the same day, Jonathan Bonnette was elected to the Board to fill the vacancy created by the resignation of David Tobias and was also appointed President and CEO of the Company. Mr. Zallen remained the Chairman of the Board and served as the CFO until the appointment of James Olson as Chairman of the Board and the appointment of Trevor Hall as CFO, respectively. Mr. Zallen's employment contract was terminated upon his resignation as CEO, and the Company agreed to pay Mr. Zallen \$2,500 per month for his continued services.

In July 2018, the Company entered into an employment agreement with Mr. Bonnette. The employment agreement had an initial term of one year and includes compensation for the first year of \$240,000 payable in unregistered shares of Common Stock at a valuation of \$0.08 per share or 3,000,000 shares of Common Stock, which were issued in July 2018. The shares were valued at \$390,000 upon grant, recorded to prepaid compensation and amortized ratably over the term of the agreement.

During the three months ended September 30, 2018, the Company negotiated a sublease agreement to lease approximately 1,338 square feet of office space at a business center known as Green Valley Corporate Center South located in Henderson, Nevada (the "Henderson Property"), effective October 19, 2018, for use as the Company's new headquarters. The lease has a term of 123 months, an abatement of the first four months of rent during which time the Company would complete certain required leasehold improvements and escalating base monthly rent per square foot ranging between \$2.00 to \$3.00 per square foot. Material lease hold improvements are being amortized over the term of the lease. The Company commenced occupation of the premises in February 2019. Appreciation, LLC holds the master lease from which the Company derives its sublease for its headquarters. Terry Kennedy, the President of Appreciation, provides consulting services to the Company and is also a beneficial owner of more than 10% of the Company's Common Stock. Total rent payments in the six months ended December 31, 2019 under the leases was \$17,541.

In July 2018, the Company entered into a consulting agreement with Mr. Kennedy with a one year term. Mr. Kennedy received a fixed fee of \$100,000 for his services which was payable in unregistered shares of Common Stock valued at \$0.10 per share for the first \$50,000 on July 1, 2018 and at \$0.034 for the second \$50,000 payable on January 1, 2019 for a total of 1,970,805 unregistered shares of Common Stock, all of which have been issued. The shares payable on January 1, 2019 were valued at \$394,161 and are being expensed in the fiscal year ended June 30, 2019.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Related Party Transactions (continued)

(3) Grow Capital (continued)

On January 28, 2019, the Company entered into a consulting agreement with Trevor Hall and appointed Mr. Hall to serve as a part-time CFO of the Company through December 31, 2019. Mr. Hall succeeded Wayne Zallen as CFO, who resigned from the position in connection with Mr. Hall's appointment.

Pursuant to the consulting agreement, Mr. Hall received \$63,000 in compensation, payable as 1,000,000 shares of Common Stock of unregistered Common Stock of the Company and will devote enough of his time to the Company as is reasonably necessary to meet the needs of the Company during the term. The shares were issued on January 29, 2019.

On April 29, 2019, Mr. Wayne Zallen resigned as a member of the Board of Directors and Chairman. Concurrently the board appointed James Olson to fill the Board vacancy and as Chairman of the Board. Mr. Olson will also be entitled to compensation for his service on the Board of Directors in the amount of \$10,000 per quarter paid in the form of fully vested unregistered shares of the Company's Common Stock at a discount of 35% to market on the first day of each calendar quarter. On April 29, 2019 Mr. Olson was issued a total of 108,853 shares in connection with his appointment at the discount to market described above.

On May 15, 2019, the Company entered into Fee Agreements (collectively, the "Fee Agreements") with each of (i) Jonathan Bonnette, (ii) Carl Sanko, a director and the Secretary of the Company, and (iii) Terry Kennedy. Under the Fee Agreements, on May 15, 2019, each of Mr. Bonnette, Mr. Sanko, and Mr. Kennedy were issued unregistered shares of Common Stock for services provided to the Company. Pursuant to the Fee Agreements (i) Mr. Bonnette received a fixed fee of \$320,000 for his service as Chief Executive Officer of the Company and for outside business management and consulting services, which was paid through the issuance of 4,124,597 unregistered shares of Common Stock; (ii) Mr. Sanko received a fixed fee of \$210,000 for his services as Secretary of the Company and for outside business management and consulting services, which was paid through the issuance of 2,706,767 unregistered shares of Common Stock, and (iii) Mr. Kennedy received a fixed fee of \$160,000 for outside business consulting services, which was paid through the issuance of 2,062,299 unregistered shares of Common Stock. Under the Fee Agreements, the shares of Common Stock were issued at a value of \$0.07758 per share.

The value of the Common Stock was set by the Company's board of directors and was equal to the average of the three lowest closing prices of the Common Stock in the 30 trading days before May 15, 2019 after applying a 30% discount. The Fee Agreements each have a term of one year. The shares of Common Stock issued under the Fee Agreements were valued at \$1,511,034 upon grant based upon the closing price of the Company's Common Stock as traded on the OTCMarkets on the date of grant, recorded to prepaid compensation and amortized ratably over the term of the agreement.

In fiscal 2018, the Company was notified by its primary banks that these banks would no longer accept the Company as a client for its banking services. Because the Company rents its properties to those who engage in a federal crime under the Controlled Substances Act, most banks subject to any federal oversight (the Office of the Comptroller of the Currency or any of the Federal Reserve Bank's of the United States) have declined to do business with any entity that is related in any way to cannabis operations. The Company's management and directors have as of June 30, 2018 transferred the Company's cash and its banking operations to an entity owned and controlled by them. The Company has treated the cash transferred as amounts due from this related entity and the cash expended from these accounts on behalf of the Company as reductions of the amounts due from the related entity. As of December 31, 2019, and June 30, 2019, the amount held in cash by the related entity and reported as a current asset as due from related party was \$27,178 and \$16,854.

GROW CAPITAL, INC. AND SUBSIDIARIES
(formerly Grow Condos, Inc.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Leases

We have operating leases for corporate offices. During the three months ended September 30, 2018, the Company negotiated a sublease agreement with Appreciation, LLC effective October 19, 2018 to lease the Henderson Property for use as the Company's new headquarters. The lease has a term of 123 months, an abatement of the first four months of rent during which time the Company would complete certain required leasehold improvements and escalating base monthly rent per square foot ranging between \$2.00 to \$3.00 per square foot. The Company commenced occupation of the premises in February 2019.

Future minimum lease payments under non-cancellable leases as of December 31, 2019 as presented in accordance with ASC 842 were as follows:

2020	\$	38,334
2021		39,457
2022		40,622
2023		41,906
2024		43,190
Remaining periods		185,488
Total future minimum lease payments		<u>388,998</u>
Less: imputed interest		(101,860)
Total		287,138
Current portion of operating lease		9,468
Long term of operating lease	\$	<u>277,670</u>

Note 12 – Other Events

On December 13, 2019, Trendsic Corporation, Inc. ("Trendsic"), a related party entity which is 49% controlled by Joel A. Bonnette (CEO of our wholly-owned subsidiary Bombshell Technologies, Inc.) filed a lawsuit in the 19th Judicial District Court in East Baton Rouge Parish, Louisiana against Joel A. Bonnette, Jared Bonnette, Bombshell Software, LLC and Bombshell Technologies, Inc. The plaintiff is disputing the ownership of certain intellectual property of Bombshell Technologies, Inc. and alleging misappropriation of trade secrets of Trendsic. Trendsic is seeking an unspecified amount of damages in excess of \$75,000 and treble damages under the Louisiana Uniform Trade Secrets Act, as well as injunctive relief. The Company believes the claims by Trendsic are without merit and is vigorously defending against such claims. At the time of this report, the Company is unable to determine or quantify potential losses in respect of the aforementioned action.

Note 13 - Subsequent Events

On January 2, 2020 the Company issued 1,350,649 fully vested unregistered shares of Common Stock to officers and directors as part of their respective board compensation package.

On January 6, 2020 the Company agreed to issue 1,000,000 shares of unregistered Common Stock in respect to private placements at \$0.05 per share for total gross proceeds of \$50,000 to the Chairman of the Board. The shares were issued on January 13, 2020.

On February 12, 2020 the Board of Directors approved a compensation contract with an effective date of January 1, 2020 for Mr. Trevor Hall, CFO, whereunder Mr. Hall shall receive compensation of 300,000 shares of unregistered Common Stock each quarter in consideration for services provided.

This current report contains forward-looking statements relating to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "intends", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these statements, which speak only as of the date that they were made. These cautionary statements should be considered with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results, later events or circumstances or to reflect the occurrence of unanticipated events.

The management's discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements for the three and six months ended December 31, 2019 and the notes thereto appearing elsewhere in this Report and the Company's audited financial statements for the fiscal year ended June 30, 2019, as filed with the Securities and Exchange Commission in our Form 10-K on October 15, 2019, along with the accompanying notes. As used in this quarterly report, the terms "we", "us", "our", and the "Company" means Grow Capital, Inc.

Overview

On June 22, 2018, the Board of Directors of the Company approved an amendment to our articles of incorporation to increase our authorized capital to 180,000,000 shares, consisting of 175,000,000 shares of common stock ("Common Stock"), par value \$0.001, and 5,000,000 shares of preferred stock ("Preferred Stock"), par value \$0.001 (the "Recapitalization") and to change the name of the Company to "Grow Capital, Inc." in order to reflect our plans to expand our business focus into the financial technology ("FinTech") sector. The Company filed articles of amendment with the State of Nevada to effect the aforementioned changes on July 10, 2018 and August 28, 2018, respectively. The Company received approval from the Financial Industry Regulatory Authority ("FINRA") for the above noted corporate actions on August 8, 2019.

In connection with this strategy, the Company hired a new Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and appointed a new chairman of the Company's board of directors, all of whom have significant experience in the FinTech sector. The Company intends to acquire FinTech companies with a clear niche and strong leadership and use its experience and understanding of the FinTech sector and access to the public markets to help its acquisitions grow.

Keeping in line with our change of operational focus as set out above, on June 26, 2019 the Company entered into a stock exchange agreement (the "Exchange Agreement") with Bombshell Technologies, Inc. ("Bombshell") and the shareholders of Bombshell (the "Bombshell Holders"). Pursuant to the Exchange Agreement, which closed on July 23, 2019, the Company acquired 100% of the outstanding shares of Bombshell (the "Bombshell Shares") in exchange for the Bombshell Holders receiving the right to receive 110,675,328 shares (the "Consideration Shares") of unregistered shares of the Company's Common Stock on a pro rata basis (the "Exchange"), 33,000,000 of which were issued to the Bombshell Holders (the "Closing Shares") at the Closing on a pro rata basis. The remaining 77,675,328 Consideration Shares (the "Secondary Shares") were issued on September 3, 2019 upon approval of the

increase to the Company's authorized common stock to 550,000,000 shares, consisting of 500,000,000 shares of Common Stock and 50,000,000 shares of Preferred Stock, effective August 29, 2019. The Bombshell Holders are also eligible to receive earn-out consideration of up to an additional 36,769,215 shares of Common Stock (the "Earn-out Shares") earnable in tranches of 12,256,405 shares of Common Stock in each of the second, third and fourth years after the Closing, based on whether Bombshell is able to meet certain Earnings Before Interest and Taxes thresholds in each year. The Bombshell Holders include certain limited liability companies owned by (i) Jonathan Bonnette, the Company's CEO (ii) Joel Bonnette, the Bombshell CEO and (iii) Terry Kennedy, a majority shareholder of the Company.

Bombshell was formed as Bombshell Technologies, LLC on November 5, 2018 and converted into a corporation on June 24, 2019. Bombshell is a full-service design and software development company focused on developing and selling software to financial services firms and advisors and is the first acquisition as part of our strategic shift into the FinTech sector and related sectors.

On July 8, 2019, the Company entered into a non-binding letter of intent (the "LOI") to acquire Encompass More Group, Inc. ("Encompass"), a Nevada corporation. In connection with the LOI, Encompass issued a promissory note (the "Note") to the Company pursuant to a loan agreement (the "Loan Agreement"), dated July 22, 2019, by and between Encompass and the Company, in exchange for a loan of \$100,000 (the "Loan"). Pursuant to the Loan Agreement, the proceeds of the Loan will be used by Encompass for working capital and general corporate purposes. The Note has a twelve-month term, an interest rate of 5.0%, and is payable in monthly installments of \$2,000, with all remaining principal and interest due on the maturity date, unless paid earlier by Encompass. The Board of Directors have subsequently determined not to proceed with the acquisition as contemplated under the LOI.

On September 4, 2019 the Company entered into a listing agreement for the sale of the Smoke on the Water site location for an offering price of \$850,000, with expected 6% sales commission. Such listing agreement was extended in December 2019 under the same terms and conditions, expiring in March 2020.

In connection with the shift in the Company's strategy away from rental activities focused in cannabis industry, the Company sold WCS on September 30, 2019 by way of a membership interest purchase agreement (the "Purchase Agreement") with the Zallen Trust. Under the terms of the Purchase Agreement, the Company sold all of the Company's membership interests in WCS for an aggregate purchase price of \$782,450. The Zallen Trust paid the purchase price by transferring to the Company 8,693,888 shares of the Company's Common Stock, valued at \$0.09 per share. The Purchase Agreement also provided that Mr. Zallen transfer to the Company an additional 400,000 shares of Common Stock to settle \$36,000 in back rent owed at the time of the sale. The Company retired all of the shares received as a result of the transaction. In connection with the sale of WCS, the Company and Mr. Zallen entered into a separation and release of claims agreement pursuant to which the Company and Mr. Zallen provided a mutual release of claims against the other party and such party's affiliates, including all claims related to Mr. Zallen's service as an officer, employee, and director of the Company. The release of claims by Mr. Zallen resulted in the forgiveness of salary accruals of approximately \$367,000 for services provided up to June 30, 2018. Mr. Zallen was the former CEO, Chairman and President of the Company.

Grow Capital expects to identify additional suitable acquisitions, complete those acquisitions, and grow those companies as part of our transition to a Fintech company. Any potential acquisitions or divestitures remain subject to final agreements, due diligence, and typical closing conditions.

Current Operations

With the recent acquisition of Bombshell, Grow Capital has shifted its operational mandate to becoming a solution-oriented company focused on software, technology and financial services business (i.e. FinTech). Our current management team consists of consultants and entrepreneurs that have combined decades of experience in this sector. Fintech is a term used to describe financial technology, an industry encompassing any kind of technology in financial services. This includes businesses and consumers and generally includes companies that provide financial services through software or other technology and ranging from mobile payment apps to cryptocurrency.

The Company's recently acquired subsidiary, Bombshell, is a software development service provider with a focus on the financial services sector and SaaS solutions. Bombshell has operations in both Nevada and Louisiana, providing software to several large financial services organizations and with a rapid growth strategy consisting of innovative industry-specific solutions for sales teams and management. At the present time, the majority of Bombshell's revenue generating customers are controlled by affiliates and/or officers of the Company.

Bombshell's current software suite delivers customized back office compliance, sophisticated multi-pay commission processing, and a unique new client application submission system, along with digital engagement marketing services centric to financial services. In addition to our software customization, licensing and subscription service contracts which generate revenue through user subscriptions as well as ongoing customization services and maintenance, we offer ad hoc services including web hosting and website development and other complementary professional services which are invoiced on an "as-provided" basis.

RESULTS OF OPERATIONS FROM CONTINUING OPERATIONS

As discussed above, the Company shifted its focus to the FinTech sector during the current fiscal year and acquired an operating, revenue generating subsidiary, Bombshell. Further, the Company divested WCS effective December 31, 2019 and the assets and liabilities of Smoke on the Water are currently classified as "held for sale" with those operations included in discontinued operations. Financial results for the three and six months ended December 31, 2018 are "combined" with respect to the operations of Bombshell Technologies, LLC under the requirements of ASC 850-50-45, which results impact the statements of profit and loss and statements of cash flows to include operations of Bombshell Technologies LLC as though it had been acquired on inception.

Three Months Ended December 31, 2019 compared to Three Months ended December 31, 2018

Revenue

During the three months ended December 31, 2019 we generated gross revenues of \$723,062, of which \$668,178 was derived from related parties, compared to \$79,527 in the comparative three months ended December 31, 2018, of which \$77,043 was derived from related parties. Costs of sales in the current three months totaled \$296,665 of which \$33,399 were costs of related party services, compared to \$56,302 for the three months ended December 31, 2018 of which \$21,610 were costs of related party services. Net revenues for the comparative three-month periods ended December 31, 2019 and 2018, respectively totaled \$426,397 and \$23,225. We do not yet have sufficient revenues to meet our ongoing operational overhead. All reported revenues in the period were generated by our wholly owned subsidiary in the FinTech sector, Bombshell which did not form and begin operations until November 2018.

Operating expenses

Our operating expenses for the three-month periods ended December 31, 2019 and 2018 are as follows:

	Three Month Ended	
	December 31,	
	2019	2018
Revenue	\$ 54,884	\$ 2,484
Revenue, related parties	668,178	77,043
Total revenues	723,062	79,527
Cost of sales, nonrelated parties	263,266	34,692
Cost of sale, related parties	33,399	21,610
Total cost of sales	296,665	56,302
Gross profit	426,397	23,225
Operating expenses		
General and administrative	66,766	75,033
General and administrative, related parties	62,943	5,486
Professional fees	176,360	51,177
Stock based compensation	503,469	118,504
Depreciation, amortization and impairment	1,758	67
Total operating expenses	811,296	250,267
Income (Loss) from operations	(384,899)	(227,042)

Three months ended December 31, 2019 and 2018

Our general and administrative expenses include rent, telephone, internet services, banking charges, salaries, consulting fees and miscellaneous office costs.

The Company experienced a substantial increase in operating expenses from \$250,267 during the three months ended December 31, 2018 compared to \$811,296 during the three months ended December 31, 2019. The increase in operating expenses is predominantly attributable to an increase in professional fees and stock-based compensation in the current period. During fiscal 2018, the Company issued common stock to certain board members, employees and consultants for services rendered at rates below market, the total combined value of which was \$118,504 for the three months ended December 31, 2018 compared to \$503,469 in the current three months ended December 31, 2019. Professional fees also increased substantially period over period from \$51,177 to \$176,360 as the Company undertook various corporate actions and acquisitions in the period. General and administrative fees decreased in the current three-month period ended December 31, 2019 from \$75,033 (2018) to \$66,766 in fiscal 2019. General and administrative fees incurred from related parties increased substantially however from \$5,486 in 2018 to \$62,943 in 2019 as the Company increased its operation to include operations of Bombshell.

Depreciation, amortization and impairment also increased from \$67 to \$1,758 in the current three-month period.

We expect operating expenses to increase in future periods as we continue to expand our holdings seeking additional areas of operation to further enhance our existing revenue base.

Other Expenses

Other income/expenses recorded in the three months ended December 31, 2019 and 2018 reflect other income of \$1,724 in the current three months as a result of interest income related to a short term loan provided by the

Company to a third party, with no similar transaction in the comparative three-month period ended December 31, 2018.

Net losses from continuing operations in the three months ended December 31, 2019 and 2018 totaled \$383,173 and \$227,042, respectively.

Discontinued operations

On September 4, 2019 the Company entered into a listing agreement for the sale of the Smoke on the Water ("SOTW") site location for an offering price of \$850,000, with expected 6% sales commission. As a result, the assets and liabilities are reported as "held for sale" and the operations of this location are included in discontinued operations. The listing agreement with extended during December 2019 under the same terms and conditions thru March 2020. Additionally, the Company sold wholly owned subsidiary WCS effective September 30, 2019. The effect of the sale is also included in discontinued operations. During the three months ended December 31, 2019 and 2018, the Company reported income from discontinued operations of \$2,409 and \$20,084, respectively.

Net losses in the three months ended December 31, 2019 and 2018 totaled \$380,766 and \$206,958, respectively.

Six Months Ended December 31, 2019 compared to Six Months ended December 31, 2018

Revenue

During the six months ended December 31, 2019 we generated gross revenues of \$1,235,425, of which \$1,123,302 was derived from related parties, compared to \$79,527 in the comparative six months ended December 31, 2018, of which \$77,043 was derived from related parties. Costs of sales in the current six months totaled \$610,178 of which \$186,354 were costs of related party services, compared to \$56,302 for the six months ended December 31, 2018, of which \$21,610 were costs of related party services. Net revenues for the comparative six-month periods ended December 31, 2019 and 2018, respectively totaled \$625,247 and \$23,225. We do not yet have sufficient revenues to meet our ongoing operational overhead. All reported revenues in the period were generated by our wholly owned subsidiary in the FinTech sector, Bombshell which did not form and begin operations until November 2018.

Operating expenses

Our operating expenses for the three-month periods ended December 31, 2019 and 2018 are as follows:

	Six Month Ended	
	December 31,	
	2019	2018
Revenue	\$ 112,123	\$ 2,484
Revenue, related parties	1,123,302	77,043
Total revenues	1,235,425	79,527
Cost of sales, nonrelated parties	423,824	34,692
Cost of sale, related parties	186,354	21,610
Total cost of sales	610,178	56,302
Gross profit	625,247	23,225
Operating expenses		
General and administrative	110,811	97,201
General and administrative, related parties	110,442	5,486
Professional fees	528,852	84,547
Stock based compensation	1,005,107	328,504
Depreciation, amortization and impairment	5,274	134
Total operating expenses	1,760,486	515,872
Income (Loss) from operations	(1,135,239)	(492,647)

Six months ended December 31, 2019 and 2018

Our general and administrative expenses include rent, telephone, internet services, banking charges, salaries, consulting fees and miscellaneous office costs.

The Company experienced a substantial increase in operating expenses from \$515,872 during the six months ended December 31, 2018 compared to \$1,760,486 during the six months ended December 31, 2019. The increase in operating expenses is predominantly attributable to an increase in professional fees and stock-based compensation in the current period, as well as an increase in general and administrative expenses incurred by related parties as a result of the acquisition of Bombshell Technologies LLC. During fiscal 2018, the Company issued common stock to certain board members, employees and consultants for services rendered at rates below market, the total combined value of which was \$328,504 for the six months ended December 31, 2018 compared to \$1,005,107 in the current six months ended December 31, 2019. Professional fees also increased substantially period over period from \$84,547 to \$528,852 as the Company undertook various corporate actions and acquisitions in the period. General and administrative fees were also increased in the current three-month period ended December 31, 2019 from \$97,201 (2018) to \$110,811 in fiscal 2019. General and administrative fees incurred from related parties increased substantially in the comparative periods from \$5,486 in 2018 to \$110,442 in 2019 as the Company increased its operation to include the expanding operations of Bombshell. Depreciation, amortization and impairment also increased from \$134 to \$5,274 in the current six-month periods.

We expect operating expenses to increase in future periods as we continue to expand our holdings seeking additional areas of operation to further enhance our existing revenue base.

Other Expenses

Other income/expenses recorded in the six months ended December 31, 2019 and 2018 reflect other income of \$3,066 in the current six months as a result of interest income related to a short term loan provided by the Company to a third party, with no similar transaction in the comparative six-month period ended December 31, 2018. Further, results from the six months ended December 31, 2018 include a loss on the disposal of an investment totaling \$5,412 with no similar transaction in the current six months ended December 31, 2019.

Net losses from continuing operations in the six months ended December 31, 2019 and 2018 totaled \$1,132,173 and \$498,059, respectively.

Discontinued operations

On September 4, 2019 the Company entered into a listing agreement for the sale of the Smoke on the Water ("SOTW") site location for an offering price of \$850,000, with expected 6% sales commission. As a result, the assets and liabilities are reported as "held for sale" and the operations of this location are included in discontinued operations. The listing agreement with extended during December 2019 under the same terms and conditions thru March 2020. Additionally, the Company sold wholly owned subsidiary WCS effective September 30, 2019. The effect of the sale is also included in discontinued operations. During the six months ended December 31, 2019 and 2018, the Company reported income from discontinued operations of \$502,514 and \$25,656, respectively. The increase in results period over period is a direct result of the sale of WCS, and the associated gain of approximately \$492,000.

Net losses in the six months ended December 31, 2019 and 2018 totaled \$629,659 and \$472,403, respectively.

Liquidity and Financial Condition

Liquidity and Capital Resources

	<u>At</u> <u>December 31, 2019</u>	<u>At</u> <u>June 30, 2019</u>
Current Assets	\$ 1,436,044	\$ 2,082,080
Current Liabilities	750,462	1,183,477
Working Capital	<u>\$ 685,582</u>	<u>\$ 898,603</u>

As of December 31, 2019, the Company had total current assets of \$1,436,044 (including stock based compensation recorded as prepaid expenses of \$623,698) and working capital of \$685,582 compared to total current assets of \$2,082,080 (including stock based compensation recorded as prepaid expenses of \$1,431,796) and working capital of \$898,603 as of June 30, 2019. The decrease in our working capital was primarily a result of amortization of prepaid stock-based compensation.

During the six months ended December 31, 2019, cash used in operating activities totaled \$556,747, primarily as a result of a net loss from continuing operations of \$1,132,173 and a gain from discontinued operations of \$502,514. The net loss from continuing operations was offset by stock-based compensation of \$1,005,107, depreciation, amortization and impairment expenses of \$5,274 and amortization of right to use assets of \$1,192. Further during the six months ended December 31, 2019 we increased our accounts receivable by \$87,185, our related party accounts receivable by \$149,637, and our accounts payable by \$91,953 while reducing our accrued expenses and accounts payable related parties.

Unearned revenue also decreased in the current period. In the six months ended December 31, 2018, cash used in operating activities totaled \$128,219 with a net loss from continuing operations of \$498,059, and a gain from discontinued operations of \$25,656, offset by stock-based compensation of \$328,504 and depreciation, amortization and impairment expenses of \$134. During the six months ended December 31, 2018 we increased our accounts receivable by \$2,484 and our related party accounts receivable by \$26,298, while reducing our accrued expenses. Accounts payable increased by \$3,471 while related party accounts payable increased by \$34,693. Unearned revenue also increased in the six months ended December 31, 2018 by \$74,255.

Net cash used by investing activities in the six months ended December 31, 2018 was \$44,354, as compared to \$61,299 in the six months ended December 31, 2019. Increase to cash due from related party in the current six-

month period totaled \$10,324 as compared to \$44,154 in the prior comparative period in 2018. During the most recent six months ended December 31, 2019 the Company loaned a third party \$100,000 on a one-year promissory note and received cash from the acquisition of Bombshell of \$43,975, with no similar transactions in the prior six months ended December 31, 2018.

Net cash provided by financing activities was \$1,165,000 in the six months ended December 31, 2018 as compared to \$236,879 in 2019. During the current six-month period ended December 31, 2019, the Company closed private placements for total proceeds of \$250,000, compared to total proceeds of \$1,165,000 from private placements during the comparable period ended December 31, 2018. Cash from financing activities in the six months ended December 31, 2019 was offset by a repayment to a related party of \$13,121 in the current period, with no similar transaction in the comparative six months ended December 31, 2018.

Net cash used by discontinued activities totaled \$855,155 in the six months ended December 31, 2018 as compared to cash provided by discontinued activities of \$6,104 in the current six months ended December 31, 2019.

Going Concern

During the three and six months ended December 31, 2019, the Company reported a net loss of \$380,766 and \$629,659, respectively. Working capital totaled approximately \$159,000 (after removing prepaid stock-based compensation) with approximately \$108,000 of cash on hand. During the three- and six-month periods ended December 31, 2018, the Company reported a net loss of \$196,492 and \$461,937, respectively. The Company believes that as of December 31, 2019 its existing capital resources are not adequate to enable it to fully execute its business plan, including the acquisition of additional operations complementary to its recently acquired subsidiary, Bombshell Technologies. While the Company's subsidiary provided approximately \$600,000 in gross profit to offset operational overhead in the period, revenues are presently not sufficient to meet the Company's ongoing expenditures. The Company is actively working to increase the customer base and gross profit in Bombshell Technologies in order to achieve net profitability by the close of fiscal 2020. These growth plans include the acquisition of several new customers, an increase to users currently subscribed to our software, as well as increased sales of customization services to new and existing customers. The Company intends to rely on sales of our unregistered common stock, loans and advances from related parties to meet operational shortfalls until such time as we achieve profitable operations. If the Company fails to generate positive cash flow or obtain additional financing, when required, the Company may have to modify, delay, or abandon some or all of its business and expansion plans, and potentially cease operations altogether. Consequently, the aforementioned items raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of their evaluation form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions and circumstances. Our significant accounting policies are more fully discussed in the Notes to our Financial Statements. Refer to Note 2 of the Unaudited Condensed Consolidated Financial Statements included herein.

Recent Accounting Pronouncements

There were various accounting standards and interpretations issued recently, none of which are expected to have a material effect on the Company's operations, financial position or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company and are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, our disclosure controls and procedures were not effective, for the reasons discussed below, to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

A material weakness is a deficiency, or combination of deficiencies, that creates a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely manner.

The material weakness related to our company was due to not having the adequate personnel to address the reporting requirements of a public company and to fully analyze and account for our transactions.

Accordingly, while we identified a material weakness in our system of internal control over financial reporting as of December 31, 2019, we believe that we have taken reasonable steps to ascertain that the financial information contained in this report is in accordance with GAAP. We are committed to remediating the control deficiencies that constitute the material weaknesses by implementing changes to our internal control over financial reporting.

Management is responsible for implementing changes and improvements in the internal control over financial reporting and for remediating the control deficiencies that gave rise to the material weaknesses.

Going forward, we intend to evaluate our processes and procedures and, where practicable and resources permit, implement changes in order to have more effective controls over financial reporting.

Changes in Internal Control over Financial Reporting

During the period covered by this report, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

On December 13, 2019, Trendsic Corporation, Inc. (“Trendsic”), a related party entity which is 49% controlled by Joel A. Bonnette (CEO of our wholly-owned subsidiary Bombshell Technologies, Inc.) filed a lawsuit in the 19th Judicial District Court in East Baton Rouge Parish, Louisiana against Joel A. Bonnette, Jared Bonnette, Bombshell Software, LLC and Bombshell Technologies, Inc. The plaintiff is disputing the ownership of certain intellectual property of Bombshell Technologies, Inc. and alleging misappropriation of trade secrets of Trendsic. Trendsic is seeking an unspecified amount of damages in excess of \$75,000 and treble damages under the Louisiana Uniform Trade Secrets Act, as well as injunctive relief. The Company believes the claims by Trendsic are without merit and is vigorously defending against such claims. At the time of this report, the Company is unable to determine or quantify potential losses in respect of the aforementioned action.

Other than as set out above, there are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

ITEM 1A. RISK FACTORS

The Company is a smaller reporting company and is not required to provide this information.

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

Except as set forth below, there were no sales of equity securities during the period covered by this Report that were not registered under the Securities Act and were not previously reported in a Quarterly Report on Form 10-Q, an Annual Report on Form 10-K or a Current Report on Form 8-K filed by the Company.

On December 3, 2019 the Company issued 283,019 fully vested unregistered shares of Common Stock to settle certain liabilities. The Company valued those issuances at the closing price of the Company's Common Stock as traded on the OTCMarkets on the date of grant and recorded a \$15,000 liability settlement and stock-based compensation of \$4,670 on the statement of operations.

On December 12, 2019, the Company agreed to issue 1,000,000 shares of unregistered Common Stock in respect to private placements at \$0.05 per share for total gross proceeds of \$50,000 to a company controlled by an officer. The shares were issued on January 13, 2020.

On January 2, 2020 the Company issued 1,350,649 fully vested unregistered shares of Common Stock to officers and directors as part of their respective board compensation package.

On January 6, 2020 the Company agreed to issue 1,000,000 shares of unregistered Common Stock in respect to private placements at \$0.05 per share for total gross proceeds of \$50,000 to the Chairman of the Board. The shares were issued on January 13, 2020.

All stock issuances discussed in this section under the heading Recent Sales of Unregistered Securities, were exempt from the registration requirements of Section 5 of the Securities Act of 1933 pursuant to Section 4(2) of the same Act since the issuances of the shares were to persons well known to the Company and did not involve any public offerings.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

**Exhibit Exhibit
Number**

- 10.1* [Fee Agreement between Trevor K Hall and Grow Capital Inc dated February 12, 2020.](#)
- 31.1* [Certification of the Principal Executive Officer required by Rule 13a-14\(a\) or Rule 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2* [Certification of the Principal Financial Officer required by Rule 13a-14\(a\) or Rule 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1* [Certification of the Chief Executive Officer \(Principal Executive Officer\) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(18 U.S.C. Section 1350\)](#)
- 32.2* [Certification of the Chief Financial Officer \(Principal Financial Officer\) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(18 U.S.C. Section 1350\)](#)
- 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

*As filed herewith.

SIGNATURES

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

GROW CAPITAL, INC.

Date: February 19, 2020

By: /s/ Jonathan Bonnette
Name: Jonathan Bonnette
Jonathan Bonnette
Chief Executive Officer, and President (Principal
Executive Officer)

Trevor K. Hall
6145 S Rainbow Blvd
Las Vegas, NV 89118
(702) 629-1886

January 1, 2020

Jonathan Bonnette, President
Grow Capital, Inc.

Re: Fee Agreement

Gentlemen,

Set forth below are the terms and conditions regarding compensation for services to be provided during calendar year 2020, and the fee arrangement for services to be provided by my firm to Grow Capital, Inc., its subsidiaries and affiliates (collectively "GRWC") for periods after December 31, 2020, along with our agreement regarding payment of fees for those services. The effective date of this agreement is and shall be January 1, 2020.

COMPENSATION FOR PAST SERVICES

It is acknowledged, both by GRWC and by Trevor K. Hall, that there are no amounts that GRWC currently owes Trevor K. Hall for any period prior to January 1, 2020 and that in consideration of this agreement and for other good and valuable consideration, Trevor K. Hall hereby waives any claim or cause of action, whether in equity or at law, he has or may have against GRWC for fees for services provided prior to January 1, 2020.

BASIC FEE ARRANGEMENT

For the twelve months beginning January 1, 2020, GRWC hereby agrees to pay Trevor K. Hall ("Hall") a fixed fee of One Million Two Hundred Thousand (1,200,000) shares of Grow Capital, Inc. restricted "144" common stock for his providing chief financial officer services. The shares are to be issued at a rate of Three Hundred Thousand (300,000) shares per quarter. The first installment, covering the period January 1 to March 31, 2020, will be issued within 10 days of executing this agreement and vest immediately upon issuance. The remaining three tranches of Three Hundred Thousand (300,000) shares per quarter, covering the periods ending June 30, September 30, and December 31, 2020, will be issued within 10 days of the beginning of each of those quarters (i.e. April 1, July 1, October 1) and vest immediately upon issuance. Such shares of stock will be issued to Trevor K. Hall, or, upon request, his designee. It is also understood and agreed that Mr. Hall is providing and intends to continue to provide services to other clients of his firm or to otherwise be individually employed by another entity or entities and that Mr. Hall shall devote only so much time and effort as is reasonably necessary to meet the needs of GRWC within his other time constraints.

The amount of compensation recorded as W-2 wages each quarter will be increased by 15%, specifically so that 15% can be deposited as Federal Income Tax withholding on the related wages for that quarter. It is the intention of the GRWC that the personal income tax burden of this stock compensation, where there is zero actual cash distributed to Hall, is paid in on his behalf by GRWC. For the sake of simplicity both GRWC and Hall agree that 15% is a fair

estimate of that personal income tax burden and no further tax related calculations or adjustments will be made to this agreement.

Because the services to be provided is in the nature of a fee retainer arrangement, it is understood and agreed that no detailed billing statements with respect to the fixed monthly fee are required nor will they be provided and Mr. Hall shall have no obligation and shall not be required to account for his time. Mr. Hall will not provide GRWC an invoice for his fixed fee.

The above stated fees do not include expenses and GRWC agrees to timely pay any authorized expenses separately billed to GRWC. Charges for expenses may and shall include, but not be limited to, expenditures for office expenses, travel, business meals, mileage, and other expenses incurred by me in the proper performance of consulting and chief financial officer services on behalf of GRWC.

Because of the potential for service to be performed by Hall & Associates, CPAs, LTD separately that will be detailed and invoiced. It is specifically noted here the items or services, that Hall will perform, but are not limited to, that will be included in the Basic Fee Arrangement:

1. Attendance at all corporate meetings
2. Assistance with the preparation of an adequate system of controls
 - a. It is understood that this system will require outside expertise and Hall will work in conjunction with others to accomplish this requirement
3. Assist in the preparation, review, and ultimately sign off as Chief Financial Officer on the quarterly and annual financial reports and Form 10K, in a timely manner, to meet required filing deadlines.
4. Periodically review the financial statements for testing to see in line with projected budgets, to assess any unusual abnormalities, and proactively correct and adjust them before reporting periods.
5. Any and all time used in education or research of GAAP or tax related positions for the benefit of GRWC
6. All conference, meeting, emails, or otherwise communication in regards to GRWC with auditors, outside accountant, internal management and team.

All above items will not be billed out in any invoices from Hall & Associates CPAs, LTD.

Specifically, no time for services performed by Hall in regards to GRWC will be invoiced for any reason. Only work by other associates to be considered on separate engagements will be billed. Including if Hall assists in those projects, although the internal plan is that is not to be the case.

For the avoidance of doubt, all services noted above will be performed in the capacity of a recordkeeper and CPA for the Company. GRWC shall engage a separate firm that has no relationship to Hall and/or Hall & Associates, CPAs, LTD to perform any audit function or other accounting service that requires independence under any applicable law, accounting standard, listing standard or other applicable authority.

Also to be noted, there is an intention for Hall to carry his position as an interim CFO until a permanent CFO can be engaged. If that happens during the year period of this agreement, it is possible that the signatory or other obligation above will be assumed by the replacement individual. Hall will stay engaged as assisting and consulting on the above related items for the entire year, regardless of the timing of this potential transition during 2020 or if his title changes.

AVAILABILITY TO PROVIDE SERVICES; TERM

With regard to any matter that GRWC may wish to refer to Mr. Hall that is within the capability and expertise of Mr. Hall to perform, Mr. Hall will make himself reasonably available on a priority/first call basis to respond to the needs of GRWC or to perform the tasks requested in regard to providing subcontract consulting and chief financial officer services, subject to the time limitations set forth above.

The firm will perform subcontract consulting and chief financial officer services typical for GRWC as a public company traded on the Over the Counter (OTC markets), and, in the case of specific matters identified by GRWC, only when reasonably requested to do so either by you or by other agents of GRWC acting under your direction. The scope of my responsibility for each

such matter will be specified by you; if no such specification is made, I will perform such services as I believe appropriate for the particular matter, in the circumstances of the request. I will not be responsible for any specific business consulting matters relating to GRWC unless they are covered by such a request.

If any of the above terms do not meet with your approval, please let me know immediately, and I will review them with you. If you agree with the foregoing, please sign the duplicate original of this letter and return it to me at your earliest convenience.

The term of this agreement shall be and is 12 months from the effective date of January 1, 2020, and may be terminated during such initial term for any cause by GRWC with thirty (30) days' official notice.

Sincerely,

By: /s/Trevor K. Hall
Trevor K. Hall

Acknowledged and Agreed:

Grow Capital, Inc.

By: /s/Jonathan Bonnette
Jonathan Bonnette, President

Date signed: 2/12/2020

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

I, Jonathan Bonnette, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Grow Capital Inc. (the "registrant") for the period ended December 31, 2019;
 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 Exhibit 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.
-

Dated: February 19, 2020

By: /s/ Jonathan Bonnette

Jonathan Bonnette

Chief Executive Officer and
President

(Principal Executive Officer)

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

I, Trevor K. Hall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Grow Capital Inc. (the "registrant") for the period ended December 31, 2019;
 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 Exhibit 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.
-

Dated: February 19, 2020

By: /s/ Trevor K. Hall

Trevor K. Hall

Chief Financial Officer
(Principal Financial and Accounting
Officer)

**CERTIFICATION PURSUANT TO 18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Jonathan Bonnette, Chief Executive Officer and President of Grow Capital Inc. (the "Company"), certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350) that, to his knowledge, the Company's Quarterly Report on Form 10-Q for the six months ended December 31, 2019 (the "Report"):

(1) 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 result of operations of the Company.

Dated: February 19, 2020

By: /s/ Jonathan Bonnette

Jonathan Bonnette
Chief Executive Officer and
President (Principal Executive
Officer)

**CERTIFICATION PURSUANT TO 18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Trevor K. Hall, Chief Financial Officer of Grow Capital Inc. (the "Company"), certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350) that, to his knowledge, the Company's Quarterly Report on Form 10-Q for the six months ended December 31, 2019 (the "Report"):

(1) 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 result of operations of the Company.

Dated: February 19, 2020

By: /s/ Trevor K. Hall

Trevor K. Hall
Chief Financial Officer (Principal
Financial and Accounting Officer)