GROW CONDOS, INC.
Form 10-Q
June 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended **March 31, 2018**

[ ] 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 CONDOS, INC.
(Exact name of registrant as specified in its charter)

Nevada	**86-0970023**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
722 W. Dutton Road, Eagle Pointe, Oregon	**97524**
(Address of principal executive offices)	*(Zip Code)*

541-879-0504
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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 [X]
	Emerging growth company [X]

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. [X]

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

Yes [ ] **No [X]**

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

91,426,057 shares of common stock outstanding as of May 16, 2018

(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.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROW CONDOS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

		March 31, 2018		June 30, 2017
ASSETS		(Unaudited)		*
CURRENT ASSETS:				
Cash	$	28,949	$	30,067
Lease receivable, net of allowance for bad debt		2,681		89
Prepaid expenses		12,531		16,790
Total current assets		44,161		46,946
Property, plant and equipment, net		1,743,400		1,765,691
Assets held for sale		326,629		326,629
Other assets		9,600		26,006
Deposits		2,823		2,823
TOTAL ASSETS	$	2,126,613	$	2,168,095
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	25,860	$	19,236
Accrued liabilities		577,583		588,903
Advances from related parties		105,000		100,000
Convertible note payable, net of discount		-		514,264
Short term mortgages		909,240		827,322
Liabilities held for sale		250,868		15,000
Current portion of mortgage loans payable		8,531		11,265
Total current liabilities		1,877,082		2,075,990
Liabilities hold for sale		-		252,129
Mortgage loans payable, net of current portion		607,255		718,676
Other liabilities		93,000		52,500
Total Non-Current Liabilities		700,255		1,023,305

TOTAL LIABILITIES		2,577,337		3,099,295
Commitments and contingencies				-
STOCKHOLDERS' DEFICIT				
Preferred stock, $0.001 par value, 5,000,000 shares authorized, none issued and outstanding	$	-	$	-
Common stock, $0.001 par value, 100,000,000 shares authorized, 89,507,210 and 30,795,375 issued, issuable and outstanding at March 31, 2018 and June 30, 2017 respectively.		89,507		30,795
Additional paid-in capital		44,564,863		41,891,602
Accumulated deficit		(45,105,094)		(42,853,597)
Total stockholders' deficit		(450,724)		(931,200)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	2,126,613	$	2,168,095

* Derived from audited information

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

GROW CONDOS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	**2017**	**2018**	**2017**
		(as adjusted)		(as adjusted)
Net revenues	$ 57,665	$ 26,801	$ 211,059	$ 85,968
Operating expenses				
Cost of revenues	9,544	2,363	30,203	2,363
General and administrative	163,402	130,037	1,341,944	346,739
Sales and marketing	358	100,556	717	174,506
Professional fees	35,090	44,155	29,810	67,552
Depreciation, amortization and impairment	26,169	7,057	61,858	21,171
Total operating expenses	234,563	284,168	1,464,532	612,331
Income (Loss) from operations	(176,898)	(257,367)	(1,253,473)	(526,363)
Other income (expense):				
Interest expense	(22,382)	(251,478)	(998,024)	(419,961)
Total other income (expense), net	(22,382)	(251,478)	(998,024)	(419,961)
Net income (loss)	$ (199,280)	$ (508,845)	$ (2,251,497)	$ (946,324)
Basic and diluted net loss per common share	$ (0.00)	$ (0.02)	$ (0.03)	$ (0.03)
Weighted average shares used in completing basic and diluted net loss per common share	88,569,526	30,446,305	69,538,413	29,664,260

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

GROW CONDOS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended March 31, 2018	2017 (as adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,251,497)	$ (946,324)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment expense	61,858	21,171
Non-cash interest	930,540	364,725
Stock based compensation	994,370	(5,922)
Changes in operating assets and liabilities:		
Lease receivable	(2,592)	(775)
Prepaid expenses and other assets	20,665	3,144
Accounts payable, trade	13,424	1,703
Accrued expenses	122,679	160,142
Net cash used (provided) in operating activities	$ (110,553)	$ (402,136)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from purchase option on property	40,500	22,500
Purchase of property, plant, and equipment	(39,567)	(283,100)
Net cash provided by (used in) investing activities	$ 933	$ (260,600)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of mortgages	(48,498)	(26,795)
Proceeds (repayment) from related party advances	45,000	(15,575)
Proceeds from convertible notes	-	440,000
Proceeds from exercise of options	-	300,000
Proceeds from private placement	112,000	-
Net cash (used) provided by financing activities	$ 108,502	$ 697,630
Net increase (decrease) in cash	(1,118)	34,894
Cash at beginning of period	30,067	44,148
Cash at the end of the period	$ 28,949	$ 79,042

Supplemental Disclosure of Cash Flows Information:				
Cash paid for interest	$	67,484	$	30,415
Cash paid for income taxes	$		$	-
Non-cash Investing and Financing Activities:				
Conversion of debt and accrued interest into common stock	$	1,191,470	$	225,541
Shares issued for acquisition of property	$	-	$	52,000
Stock settled debt liability	$	110,000	$	350,000
Beneficial conversion feature discount recorded		253,333		440,000
Seller financing of real estate	$	-	$	625,000
Liability settled in stock	$	6,800-	$	
Stock settled advances from related party	$	40,000	$	-
Stock settled payroll liability	$	134,000	$	-

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

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Organization and Description of Business

Grow Condos, Inc. ("GCI" or the "Company") (f/k/a Fanatic Fans Inc. and Calibrus, Inc.) was incorporated on October 22, 1999, in the State of Nevada.

Our 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 aeroponic grow facilities to support cannabis farmers. WCS intends to own, lease, sell and manage multi- tenant properties so as to reduce the risk of ownership and reduce costs to tenants and owners.

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 acquiring properties in the RV and campground rental industry.

On March 7, 2017, Smoke on the Water, Inc. executed a Real Estate Purchase Agreement to acquire the Lake Selmac Resort located at 2700 Lakeshore Drive, Selma, Oregon (see Note 3 below).

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation:

The interim unaudited financial information referred to above 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. These interim financial statements include all adjustments that, in the opinion of management, are necessary in order to make the financial statements not misleading.

This report on Form 10-Q should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended June 30, 2017 filed on April 24, 2018. Results of the three and nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ended June 30, 2018 and any other future periods.

Consolidation

These consolidated financial statements include the accounts of Grow Condos, Inc., and its wholly-owned subsidiaries, WCS, Enterprises, LLC and Smoke on the Water, Inc. as of March 31, 2018. All significant intercompany accounting transactions have been eliminated as a result of consolidation.

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 effect on the financial statements of a condition, situation, or set of circumstances that existed 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 CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 – Summary of Significant Accounting Policies (cont'd)

Significant estimates include, but are not limited to, assumptions used in the valuation of equity compensation, allocation of purchase price for acquired assets and assumptions used in our impairment testing of long-lived assets.

Going Concern

During the three and nine months period ended March 31, 2018, the Company reported a net loss of $199,280 and $2,251,497, respectively. During the three and nine months period ended March 31, 2017, the Company reported a net loss of $508,845 and $946,324, respectively. The Company believes that its existing capital resources are not adequate to enable it to execute its business plan. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. The Company estimates that it will require additional cash resources during fiscal year 2018 and beyond based on its current operating plan and condition. The Company expects cash flows from operating activities to improve, primarily as a result of an increase in revenue and a decrease in certain operating expenses, although there can be no assurance thereof. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. If we fail to generate positive cash flow or obtain additional financing, when required, we may have to modify, delay, or abandon some or all of our business and expansion plans.

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.

Lease Receivables

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. As of June 30, 2017, and 2016, an allowance for doubtful accounts was recorded in the amount of $2,861. As of March 31, 2018, and June 30, 2017, the Company had recorded deferred rent for the straight-line value of rental income of $9,600 and $26,006, respectively, as part of other assets.

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

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 – Summary of Significant Accounting Policies (cont'd)

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

Revenue Recognition

We recognize revenue only when all of the following criteria have been met:

- persuasive evidence of an arrangement exists;
- use of the real property has taken place or services have been rendered;
- the fee for the arrangement is fixed or determinable; and
- collectability is reasonably assured.

Persuasive Evidence of an Arrangement – We document all terms of an arrangement in a real property lease signed by the tenant, for leases with a term greater than 30 days, prior to recognizing revenue.

Our real property lease agreements, which are governed by the laws of the state of Oregon, usually are non-cancellable and range from six to thirty-six months with a cash security deposit and personal guarantee required. We account for our leases in accordance with Accounting Standard Codification ("ASC") Topic 840, *Leases*, as operating leases. Leases may include escalating rental rates, an option to extend the term of the lease at a fixed rental rate, and an option to purchase the portion of the building being leased at the end of the lease term. Leases may be assigned with our approval. Common area maintenance and water are paid by the Company with the tenant responsible for maintenance, repairs and liability insurance associated with their specific unit within the building. Cash received for purchase options is recorded as deferred option revenue in the accompanying consolidated financial statements. These amounts are recorded to revenue upon the exercise of the option by the tenant or the expiration of the unused option.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $717 and $174,506 for the nine months ended March 31, 2018 and 2017 respectively and, $358 and $100,556 for the three months ended March 31, 2018 and 2017, respectively

Fair Value of Financial Instruments:

The Company follows the fair value measurement rules, which provides guidance on the use of fair value in accounting and disclosure for assets and liabilities when such accounting and disclosure is called for by other accounting literature. These rules establish a fair value hierarchy for inputs to be used to measure fair value of financial assets and liabilities. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels: Level 1 (highest priority), Level 2, and Level 3 (lowest priority).

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the balance sheet date.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 – Summary of Significant Accounting Policies (cont'd)

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Inputs are unobservable and reflect the Company's assumptions as to what market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

Investments are reflected in the accompanying financial statements at fair value. The carrying amount of receivables and accounts payable and accrued expenses approximates fair value due to the short-term nature of those instruments.

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of lease receivables, accounts payable, accrued liabilities, and mortgages payable approximate fair value given their short-term nature or effective interest rates, which constitutes level three inputs

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. Restricted 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 fair value of options is calculated using the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant based on key assumptions such as expected volatility and expected term, so long as the option does not contain provisions that require a more complex model to be used.

Convertible debt and beneficial conversion features

The Company evaluates embedded conversion features within convertible debt under ASC 815 "Derivatives and Hedging" to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion features.

Stock settled debt

In certain instances, the Company will issue convertible notes which contain a provision in which the price of the conversion feature is priced at a fixed discount to the trading price of the Company's common shares as traded in the over-the-counter market. In these instances, the Company records a liability, in addition to the principal amount of the convertible note, as stock-settled debt for the fixed value transferred to the convertible note holder from the fixed discount conversion feature. As of September 30, 2017, the Company had recorded an additional $110,000 for the value of the stock settled debt relative to certain convertible notes (see Note 9).

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 – Summary of Significant Accounting Policies (cont'd)

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.

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.

Net (loss) income per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares 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 nine months ended March 31, 2018 and 2017, 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 dilutive shares as of March 31, 2018.

Options	500,000
Warrants	300,000
Total diluted shares	800,000

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 CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 – Prior – Period Adjustments

Prior-Period Adjustments for the Three and Nine Months Ended March 31, 2017

During the fiscal year ended June 30, 2017 and 2016, the Company corrected its accounting policy on the convertible notes which contain a provision in which the price of the conversion feature is priced at a fixed discount to the trading price of the Company's common shares as traded in the over-the-counter market. The result of this correction was to remove the previously recorded expense for the change in the value derivatives and the amount of interest expense recorded. In addition, based on the results of its just completed audits, the Company also corrected errors in regard to the amount of compensation expense from equity-based compensation. The comparative results for the three and nine months ended March 31, 2017 have been appropriately adjusted. And the Company has reclassified the presentation of certain prior-year information to conform to the current presentation. The effect of these changes are as follows:

For the three months ended March 31, 2017	Original	Adjustments	Adjusted
Rental revenues	$ 26,801	$ -	$ 26,801
Operating expenses	9,194	274,974	284,168
Income (Loss) from operations	17,607	(274,974)	(257,367)
Interest expense	(137,018)	(114,460)	(251,478)
Net income/(loss)	$ (119,411)	$ (389,434)	(508,845)
Basic and diluted net loss per common share	$ (0.00)	$	$ (0.02)
Weighted average shares used in completing basic and diluted net loss per common share	30,440,523		30,446,305

For the nine months ended March 31, 2017	Original	Adjustments	Adjusted
Rental revenues	$ 85,968	$ -	$ 85,968
Operating expenses	746,615	(134,284)	612,331

Income/(Loss) from operations	(660,647)	134,284	(526,363)
Interest expense	(275,198)	(144,763)	