

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 September 30, 2022

or

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

For the transition period from _____ to _____.

Commission File Number 001-41347

EXPION360

EXPION360 INC.

(Exact name of registrant as specified in its charter)

Nevada

(state or other jurisdiction of incorporation or organization)

81-2701049

(IRS Employer Identification No.)

2025 SW Deerhound Ave Redmond OR 97756

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(541) 797-6714**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.001 par value	XPON	The NASDAQ Stock Market LLC

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 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, a 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 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 13(a) of the Exchange Act.

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

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

Title or class	Shares outstanding as of November 3, 2022
Common Stock, \$.001 par	6,802,464

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PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Expion360 Inc.
Balance Sheets (Unaudited)**

	<u>As of September 30, 2022</u>	<u>As of December 31, 2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,117,029	\$ 773,238
Accounts receivable, net	280,465	775,160
Inventory	5,036,057	2,051,880
Prepaid/in-transit inventory	268,663	1,081,225
Prepaid expenses and other current assets	205,893	71,703
Total current assets	<u>13,908,107</u>	<u>4,753,206</u>
Property and equipment	1,261,706	523,419
Accumulated depreciation	(201,763)	(96,190)
Property and equipment, net	<u>1,059,943</u>	<u>427,229</u>
Other Assets		
Operating leases – right-of-use asset	3,277,314	1,281,371
Deposits	74,877	63,901
Total other assets	<u>3,352,191</u>	<u>1,345,272</u>
Total assets	<u>\$ 18,320,241</u>	<u>\$ 6,525,707</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 146,673	\$ 63,180
Customer deposits	161,791	436,648
Accrued expenses and other current liabilities	248,025	140,618
Line of credit and short-term revolving loans	—	550,000
Current portion of operating lease liability	465,471	218,788
Liability for sale of future revenues, net	—	11,502
Note payable in default	—	100,000
Current portion of long-term debt	70,285	51,135
Total current liabilities	<u>1,092,245</u>	<u>1,571,871</u>
Long-term debt, net of current portion and discount	454,109	779,486
Operating lease liability, net of current portion	2,872,575	1,092,861
Shareholder promissory notes	825,000	825,000
Total liabilities	<u>\$ 5,243,929</u>	<u>\$ 4,269,218</u>

(continued on next page)

Expion360 Inc.
Balance Sheets (Unaudited) – Continued

	<u>As of September 30, 2022</u>	<u>As of December 31, 2021</u>
Stockholders' equity		
Preferred stock, par value \$.001; 20,000,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, par value \$.001; 200,000,000 shares authorized; 6,802,464 and 4,300,000 issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	6,802	4,300
Additional paid-in capital	25,239,654	8,355,140
Accumulated deficit	(12,170,144)	(6,102,951)
Total stockholders' equity	<u>13,076,312</u>	<u>2,256,489</u>
Total liabilities and stockholders' equity	<u>\$ 18,320,241</u>	<u>\$ 6,525,707</u>

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Operations (Unaudited)

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended</u> <u>September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Sales, net	\$ 1,383,011	\$ 1,331,081	\$ 5,741,075	\$ 3,209,847
Cost of sales	980,141	796,966	3,770,025	2,024,442
Gross profit	402,870	534,115	1,971,050	1,185,405
Selling, general and administrative	1,662,005	725,529	6,479,954	1,460,369
Loss from operations	(1,259,135)	(191,414)	(4,508,904)	(274,964)
Other (Income) / Expense				
Interest income	(64)	(9)	(158)	(168)
Debt conversion expense	—	—	—	112,133
Interest expense	34,016	161,801	1,571,848	343,904
Gain on sale of property and equipment	(13,312)	—	(13,312)	—
Other (income) expense	(471)	(430)	(389)	(430)
Total other (income) / expense	20,169	161,362	1,557,989	455,439
Loss before taxes	(1,279,304)	(352,776)	(6,066,894)	(730,403)
Franchise taxes	—	—	300	—
Net loss	<u>\$ (1,279,304)</u>	<u>\$ (352,776)</u>	<u>\$ (6,067,193)</u>	<u>\$ (730,403)</u>
Net loss per share (basic and diluted)	<u>\$ (0.19)</u>	<u>\$ (0.13)</u>	<u>\$ (1.03)</u>	<u>\$ (0.28)</u>
Weighted-average number of common shares outstanding	6,802,464	2,653,464	5,913,763	2,602,952

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Stockholders' Equity (Deficit) for Nine Months ended September 30, 2022 and 2021 (Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2020	2,430,514	\$ 2,431	\$ —	\$ (1,382,093)	\$ (1,379,662)
Issuance of shares upon conversion of convertible notes	59,515	59	173,098	—	173,157
Effect of induced conversion of debt	—	—	112,133	—	112,133
Issuance of shares in exchange for building signage	6,667	7	19,993	—	20,000
Issuance of shares for cash	81,106	81	269,919	—	270,000
Net loss	—	—	—	(247,193)	(247,193)
Balance at March 31, 2021	<u>2,577,802</u>	<u>\$ 2,577</u>	<u>\$ 575,143</u>	<u>\$ (1,629,286)</u>	<u>\$ (1,051,565)</u>
Issuance of shares for cash	75,662	76	251,924	—	252,000
Net loss	—	—	—	(130,435)	(130,435)
Balance at June 30, 2021	<u>2,653,464</u>	<u>\$ 2,654</u>	<u>\$ 827,067</u>	<u>\$ (1,759,721)</u>	<u>\$ (930,000)</u>
Net loss	—	—	—	(352,775)	(352,775)
Balance at September 30, 2021	<u>2,653,464</u>	<u>\$ 2,654</u>	<u>\$ 827,067</u>	<u>\$ (2,112,496)</u>	<u>\$ (1,282,775)</u>
Balance at December 31, 2021	4,300,000	\$ 4,300	\$ 8,355,140	\$ (6,102,951)	\$ 2,256,489
Net loss	—	—	—	(696,853)	(696,853)
Balance at March 31, 2022	<u>4,300,000</u>	<u>\$ 4,300</u>	<u>\$ 8,355,140</u>	<u>\$ (6,799,804)</u>	<u>\$ 1,559,636</u>
Issuance of shares, initial public offering, net of issuance costs	2,466,750	2,466	14,770,021	—	14,772,487
Issuance of shares in exchange for IPO services	35,714	36	(36)	—	—
Issuance of stock options	—	—	2,114,529	—	2,114,529
Net loss	—	—	—	(4,091,036)	(4,091,036)
Balance at June 30, 2022	<u>6,802,464</u>	<u>\$ 6,802</u>	<u>\$ 25,239,654</u>	<u>\$ (10,890,840)</u>	<u>\$ 14,355,616</u>
Net loss	—	—	—	(1,279,304)	(1,279,304)
Balance at September 30, 2022	<u>6,802,464</u>	<u>\$ 6,802</u>	<u>\$ 25,239,654</u>	<u>\$ (12,170,144)</u>	<u>\$ 13,076,312</u>

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (6,067,193)	\$ (730,403)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	115,670	38,176
Accrued interest on convertible notes	—	72,997
Amortization of debt discount (sale of future revenues)	295	87,219
Amortization of debt discount - notes	1,196,843	21,104
Debt conversion expense on induced conversion of convertible notes	—	112,133
Gain on sale of property and equipment	(13,312)	—
Increase in allowance for doubtful accounts	19,604	—
Stock-based compensation	2,114,529	—
Changes in operating assets and liabilities:		
(Increase) / Decrease in accounts receivable	475,091	(532,296)
Increase in inventory	(2,984,177)	(523,358)
(Increase) / Decrease in prepaid/in-transit inventory	812,562	(1,177,264)
Increase in prepaid expenses and other current assets	(134,191)	(58,303)
Increase in deposits	(10,976)	(48,284)
Increase / (Decrease) in accounts payable	(87,369)	38,689
Decrease in customer deposits	(274,857)	—
Increase / (Decrease) in accrued expenses and other current liabilities	107,407	(30,109)
Decrease in liability for refunds	—	(58,000)
Increase in right-of-use assets and lease liabilities	30,454	15,188
Net cash used in operating activities	(4,699,620)	(2,772,511)
Cash flows from investing activities		
Purchases of property and equipment	(434,458)	(94,202)
Net proceeds from sale of property and equipment	51,679	—
Net cash used in investing activities	(382,779)	(94,202)
Cash flows from financing activities		
Payments on line of credit and short-term revolving loans	(550,000)	(230,000)
Proceeds from sale of future revenues	—	125,000
Payments on liability for sale of future revenues	(11,797)	(250,516)
Principal payments on long-term debt	(1,784,500)	(17,836)
Proceeds from issuance of convertible notes, net of discount	—	2,781,000
Net proceeds from issuance of common stock	14,772,487	522,000
Net cash provided by financing activities	12,426,190	2,929,648
Net change in cash and cash equivalents	7,343,791	62,934
Cash and cash equivalents, beginning	773,238	290,675
Cash and cash equivalents, ending	8,117,029	353,609

Expion360 Inc.
Statements of Cash Flows (Unaudited) - Continued

Supplemental disclosure of cash flow information:	For the Nine Months Ended September 30,	
	2022	2021
Cash paid for interest	\$ 401,037	\$ 287,761
Cash paid for franchise taxes	\$ 300	\$ 1,829
Non-cash operating activities:		
Convertible notes and accrued interest converted to common stock	\$ —	\$ 173,157
Reclassification of accrued interest to long-term debt	\$ —	\$ 5,183
Reclassification of modified convertible note to long-term debt	\$ —	\$ 100,000
Reclassification of modified member promissory note to convertible notes	\$ —	\$ 250,000
Issuance of common stock in exchange for property and equipment	\$ —	\$ 20,000
Acquisition/modification of operating lease right-of-use asset and lease liability	\$ 2,348,509	\$ 1,268,089
Purchases of property and equipment in exchange for long-term debt	\$ 181,430	\$ 246,166
Purchases of property and equipment in exchange for short-term payable	\$ 170,863	\$ —

The accompanying notes are an integral part of these financial statements

1. Organization and Nature of Operations

Expion360 Inc. (formerly Yozamp Products Company, LLC dba Expion360) (“the Company”) was incorporated in the state of Nevada in November 2021. Effective November 1, 2021, the Company converted to a C corporation. Prior to conversion, the Company was a limited liability company (LLC) with an indefinite life organized in the State of Oregon in June 2016. The LLC elected to be treated as a Subchapter S corporation effective January 1, 2017. Net profits and losses of the LLC and all distributions were allocated among the members in proportion to the ownership units held. The Original LLC Agreement was amended and restated on January 1, 2021 to add additional members and a non-voting class of member units. Upon conversion to a C corporation, all existing LLC members at the time of conversion were issued shares of common stock and became shareholders of the Company. (See Note 11 – Conversion to a C Corporation).

The Company designs, assembles, and distributes premium lithium batteries for RV, Marine, Golf, Industrial, Residential, and Off-The-Grid needs. The Company uses lithium iron phosphate (LiFePO₄) batteries. LiFePO₄ batteries are considered a top choice for high energy density, dependability, longevity, and safety, providing the ability to power anything, anywhere.

Beginning in March 2020, the COVID-19 pandemic and the measures imposed to contain this pandemic have disrupted and may continue to impact the Company’s business. The magnitude of the impact of the COVID-19 pandemic on the Company’s productivity, results of operations, and financial position, and its disruption to the Company’s business and battery development and timeline, will depend in part on the length and severity of these restrictions and on the Company’s ability to conduct business in the ordinary course.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statement presentation. However, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the three- and nine-month periods ended September 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. The unaudited interim financial statements should be read in conjunction with the Company’s financial statements and related notes as of and for the year ended December 31, 2021, as disclosed in the Company’s prospectus, dated March 31, 2022, filed with the SEC in accordance with Rule 424(b) of the Securities Act on April 4, 2022 (the “Prospectus”) in connection with the Company’s initial public offering.

Unless otherwise noted, all references to shares and shareholders in the accompanying financial statements have been restated retrospectively, to reflect the equity structure of the C corporation as of the beginning of the first period presented.

Liquidity and Capital Resources

The Company has sustained recurring losses and has negative cash flows from operations for the nine months ended September 30, 2022. Historically, the Company’s growth has been funded through a combination of sales of equity interests, third party debt, and working capital loans. The Company’s sales for the nine months ended September 2022 increased 79% over sales for the nine months ended September 30, 2021, as product demand continued to rise. On April 1, 2022, the Company completed an initial public offering and listing of its shares on the Nasdaq Stock Market (IPO). Proceeds from the IPO, net of costs, totaled \$14,772,487, of which approximately \$2,464,000 was used to pay down principal and accrued interest on high interest-bearing debt, which will help to improve monthly cash flows going forward. The remaining proceeds will be used, in part, to stock inventory to keep up with demand and to build in-house assembly lines to improve the cash-flow cycle, side-stepping the four-month turnaround that the Company currently experiences from suppliers in China. In the first half of 2022, a distribution warehouse was set up in Indiana to better service customers throughout the U.S. and an assembly facility was leased in Redmond, Oregon for future expansion of the in-house assembly lines. Additionally, management has secured a secondary source for lithium iron phosphate cells used in its batteries that is based in Denmark, should supply disruption issues with China arise. Management believes that these factors will contribute to achieving operating efficiency and profitability. However, there can be no assurance that the Company will be successful in achieving its objectives, including achieving operating efficiency and profitability.

The Company believes that as a result of the IPO, it currently has sufficient cash to meet its funding requirements for at least twelve months after the date of the issuance of these financial statements. However, the Company has experienced and continues to experience negative operating margins. The Company expects that it may need to raise additional capital in the future to expand its presence in the marketplace and achieve operating efficiencies, and to accomplish its long-term business plan over the next several years. There can be no assurance as to the availability or terms upon which such financing and capital might be available.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary materially from the estimates that were used. The Company's significant accounting estimates include the carrying value of accounts receivable and inventory, the depreciable lives of fixed assets, and stock-based compensation.

Future events, including the extent and the duration of the COVID-19-related economic impacts and their effects, cannot be predicted with certainty and, accordingly, the Company's accounting estimates require the exercise of judgment.

Cash and Cash Equivalents

The Company considers all cash amounts which are not subject to withdrawal restrictions or penalties and all highly liquid investments purchased with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company maintains its cash balances with high-quality financial institutions located in the United States. Accounts are secured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. At times, balances may exceed federally insured limits. The Company has not experienced any losses in such accounts and management believes that the Company is not exposed to any significant credit risk with respect to its cash and cash equivalents. As of September 30, 2022, cash balances exceeded FDIC limits by \$1,064,880.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, are due within a year or less, and generally do not bear any interest. The Company performs ongoing credit evaluations of its customers and generally requires no collateral. An allowance for uncollectible accounts is recorded to reduce accounts receivable to the estimated amount that will be collected. The allowance is based upon management's review of the accounts receivable aging and specific identification of potentially uncollectible balances. Recoveries of accounts previously written off and adjustments to the allowance for uncollectible accounts are recorded as adjustments to bad debt expense. The allowance for doubtful accounts totaled \$19,604 as of September 30, 2022. There was no allowance for doubtful accounts as of December 31, 2021, as management believed all outstanding amounts to be fully collectible.

Customer Deposits

As of September 30, 2022 and December 31, 2021, the Company had customer deposits totaling \$161,791 and \$436,648, respectively.

Inventory

Inventory is stated at the lower of cost (first in, first out) or net realizable value and consists of batteries and accessories, resale items, components, and related landing costs. The Company began in-house assembly in 2021 and as of September 30, 2022 and December 31, 2021, inventory consisted of finished assemblies totaling \$2,436,475 and \$985,537, respectively, and raw materials (inventory components, parts, and packaging) totaling \$2,599,582 and \$1,066,343, respectively. The valuation of inventory includes fixed production overhead costs based on normal capacity of the assembly warehouse.

The Company periodically reviews its inventory for evidence of slow-moving or obsolete inventory and provides for an allowance when considered necessary. The Company determined that no such reserve was necessary as of September 30, 2022 or December 31, 2021. The Company prepays for inventory purchases from foreign suppliers. Prepaid inventory totaled \$268,663 and \$1,081,225 at September 30, 2022 and December 31, 2021, respectively, and included inventory in transit where title had passed to the Company but had not yet been physically received.

Vendor and Foreign Concentrations of Inventory Suppliers

During the three months ended September 30, 2022 and 2021, approximately 91% and 92%, respectively, of inventory purchases were made from foreign suppliers in China and Hong Kong. During the nine months ended September 30, 2022 and 2021, approximately 92% and 93%, respectively, of inventory purchases were made from foreign suppliers in China and Hong Kong. Any adverse change in either the economic or political conditions abroad could negatively impact the Company's supply chain. The inability to obtain product to meet sales demand could adversely affect results of operations. However, the Company has secured a secondary source for lithium iron phosphate cells used in its batteries from a supplier in Denmark, enabling the Company to source materials outside of China in the event it becomes necessary to do so.

Property and Equipment

Property and equipment are stated at cost less depreciation calculated on the straight-line basis over the estimated useful lives of the related assets as follows:

Vehicles and transportation equipment	5 - 7 years
Office furniture and equipment	3 - 7 years
Manufacturing equipment	3 - 10 years
Warehouse equipment	3 - 10 years
QA equipment	3 - 10 years
Tooling and molds	5 - 10 years

Leasehold improvements are amortized over the shorter of the lease term or their estimated useful lives.

Betterments, renewals, and extraordinary repairs that extend the lives of the assets are capitalized; other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation and amortization applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in the Statements of Operations.

Leases

The Company determines if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets represent the Company's right to use an underlying asset during the lease term, and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating leases are included in ROU assets, current operating lease liabilities, and long-term operating lease liabilities on the Company's Balance Sheets. The Company does not have any finance leases.

Lease ROU assets and lease liabilities are initially recognized based on the present value of the future minimum lease payments over the lease term at commencement date calculated using the Company's incremental borrowing rate applicable to the lease asset, unless the implicit rate is readily determinable. ROU assets also include any lease payments made at or before lease commencement and exclude any lease incentives received. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of 12 months or less are not recognized on the Company's Balance Sheet. The Company's leases do not contain any residual value guarantees. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Company accounts for lease and non-lease components as a single lease component for all its leases.

Impairment of Long-Lived Assets

Long-lived assets consist primarily of property and equipment. When events or circumstances indicate the carrying value of a long-lived asset may be impaired, the Company estimates the future undiscounted cash flows to be derived from the use and eventual disposition of the asset to assess whether or not a potential impairment exists. If the carrying value exceeds the estimate of future undiscounted cash flows, the impairment is calculated as the excess of the carrying value of the asset over the estimate of its fair value. Fair value is determined primarily using the estimated cash flows discounted at a rate commensurate with the risk involved. No long-lived asset impairment was recognized during the three months or nine months ended September 30, 2022 and 2021.

Product Warranties

The Company sells the majority of its products to customers along with conditional repair or replacement warranties. The Company's branded DC mobile chargers are warranted for two years from the date of sale and its branded VPR 4EVER Classic and Platinum batteries are warranted at gradually lesser levels over a twelve-year period from date of sale. The Company determines its estimated liability for warranty claims based on the Company's experience of the amount of claims actually made. Management estimates no liability as of September 30, 2022 and December 31, 2021 because, historically, there have been very few claims and costs for repairs or replacement parts have been nominal. It is possible that the Company's estimate of a liability for product liability claims will change in the near term.

Liability for Refunds

The Company does not have a formal return policy but does accept returns under its warranty policies. Returns have historically been minimal. However, during 2020 the Company sold discontinued products and recorded a liability for refunds. As of December 31, 2020, the liability totaled \$58,000. During the three months and nine months ended September 30, 2021, the Company issued credits totaling \$8,628 and \$58,000, respectively, which were included in the refund liability as of December 31, 2020. As of December 31, 2021, all allowable discontinued products had been returned and the Company had no further refund liability. Revenue is recorded net of this amount. Any returns of discontinued product are not added back to inventory and therefore related costs are nominal and not recorded as an asset.

Revenue Recognition

The Company's revenue is generated from the sale of products consisting primarily of batteries and accessories. The Company recognizes revenue when control of goods or services is transferred to its customers in an amount that reflects the consideration it is expected to be entitled to in exchange for those goods or services. To determine revenue recognition, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the performance obligation(s) are satisfied. Revenue is recognized upon shipment or delivery to the customer, as that is when the customer obtains control of the promised goods and the Company's performance obligation is considered satisfied. As such, accounts receivable is recorded at the time of shipment or will call, when the Company's right to the consideration becomes unconditional and the Company determines there are no uncertainties regarding payment terms or transfer of control.

Concentration of Major Customers

A customer is considered a major customer when net revenue attributable to the customer exceeds 10% of total revenue for the period or outstanding receivable balances exceed 10% of total receivables.

During the three months ended September 30, 2022, sales to two customers totaled \$220,300 and \$174,636, respectively, comprising approximately 16% and 13% of total sales, respectively. There were no accounts receivable for these customers as of September 30, 2022. During the nine months ended September 30, 2022, sales to two customers totaled \$1,264,344 and \$552,477, respectively, comprising approximately 22% and 10%, respectively, of total sales. Accounts receivables for these customers totaled \$7,486 and \$0, respectively, representing approximately 3% of total accounts receivable as of September 30, 2022. Accounts receivable from two additional customers totaled \$47,758 and \$43,031, representing approximately 17% and 15%, respectively, of total accounts receivables as of September 30, 2022.

During the three months ended September 30, 2021, sales to one customer totaled \$132,870, comprising approximately 10% of total sales. Accounts receivable for this customer totaled \$104,562, representing approximately 14% of total accounts receivable as of September 30, 2021. During the nine months ended September 30, 2021, sales to two customers totaled \$440,036 and \$370,134, respectively, comprising approximately 14% and 12%, respectively, of total sales. Accounts receivable from these customers totaled \$97,127 and \$104,562, respectively, representing approximately 13% and 14%, respectively, of total accounts receivable as of September 30, 2021. Accounts receivable from one additional customer totaled \$104,405, representing approximately 14% of total accounts receivable as of September 30, 2021.

Shipping and Handling Costs

Shipping and handling fees billed to customers are classified on the Statement of Operations as "Sales, net" and totaled \$6,133 and \$5,839 during the three months ended September 30, 2022 and 2021, respectively and \$17,514 and \$20,812 during the nine months ended September 30, 2022 and 2021, respectively. Shipping and handling costs for shipping product to customers totaled \$54,840 and \$23,664 during the three months ended September 30, 2022 and 2021, respectively, and \$137,497 and \$73,393 during the nine months ended September 30, 2022 and 2021, respectively, and are classified in selling, general and administrative expense in the accompanying Statements of Operations.

Advertising and Marketing Costs

The Company expenses advertising and marketing costs as incurred. Advertising and marketing expense totaled \$93,364 and \$11,025 for the three months ended September 30, 2022 and 2021, respectively and \$164,118 and \$46,550 for the nine months ended September 30, 2022 and 2021, respectively, and is included in selling, general and administrative expense in the accompanying Statements of Operations.

Research and Development

Research and development costs are expensed as incurred. Research and development costs charged to expense amounted to \$39,180 and \$3,205 for the three months ended September 30, 2022 and 2021, respectively and \$145,401 and \$14,917 for the nine months ended September 30, 2022 and 2021, respectively, and are included in selling, general and administrative expenses in the accompanying Statements of Operations.

Income Taxes

From January 1, 2017 to October 31, 2021, the Company was not subject to federal or state income taxes since it was a limited liability company taxed as an S corporation. The Company's taxable income or losses were allocated to its members in accordance with their respective ownership percentages. Therefore, no provision or liability for federal income taxes was included in the accompanying financial statements for the relevant periods in 2021. Certain states impose minimum franchise taxes on entities taxed as an S corporation. Accordingly, the accompanying financial statements include provisions for state franchise tax fees.

Effective November 1, 2021, the Company converted from an LLC to a C corporation and, as a result, became subject to corporate federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of exiting assets and liabilities and their respective tax basis. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides sweeping tax changes in response to the COVID-19 pandemic. Some of the more significant provisions are removal of certain limitations on utilization of net operating losses, increasing the loss carryback period for certain losses to five years, and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. As of September 30, 2022 and December 31, 2021, the Company has not recorded any income tax provision/(benefit) resulting from the CARES Act, mainly due to the Company's history of net operating losses.

On December 27, 2020, the United States enacted the Consolidated Appropriations Act of 2021 ("CAA"). The CAA includes provisions extending certain CARES Act provisions and adds coronavirus relief, tax and health extenders. The Company will continue to evaluate the impact of the CAA and its impact on its financial statements in 2022 and beyond.

Fair Value of Financial Instruments

The Company accounts for its financial assets and liabilities in accordance with ASC Topic 820, *Fair Value Measurement*. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data. These inputs include quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in the assessment of fair value.

The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, short-term revolving loans, shareholder promissory notes, and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable, and short-term revolving loans approximates their respective carrying values because of the short-term nature of those instruments. The fair value of the shareholder promissory notes, convertible notes, and long-term debt approximates their respective carrying values because the interest rate approximates market rates available to the Company for similar obligations with the same maturities.

Segment Reporting

The Company currently operates in one reportable segment. An operating segment is defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the Chief Operating Decision Maker ("CODM") to evaluate performance and make operating decisions. The Company has identified its CODM as the Chief Executive Officer.

Basic and Diluted Net Loss Per Share

The basic net loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. Diluted earnings or loss per share adjusts the basic earnings or loss per share for the potentially dilutive impact of securities (e.g., options and warrants).

We calculate basic and diluted net loss per share using the weighted average number of common shares outstanding during the periods presented. In periods of a net loss position, basic and diluted weighted average common shares are the same. For the diluted earnings per share calculation, we adjust the weighted average number of common shares outstanding to include dilutive stock options, warrants, unvested restricted stock units and shares associated with the conversion of any convertible notes or preferred stock, when applicable. We use the if-converted method for calculating any potential dilutive effect of convertible notes and convertible preferred stock on diluted net loss per share.

The following shows the amounts used in computing net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (1,279,304)	\$ (352,776)	\$ (6,067,193)	\$ (730,403)
Weighted average common shares outstanding – basic and diluted	6,802,464	2,653,464	5,913,763	2,602,952
Basic and diluted net loss per share	\$ (0.19)	\$ (0.13)	\$ (1.03)	\$ (0.28)

As of September 30, 2022 and December 31, 2021, the Company has outstanding warrants and options convertible into 1,717,936 and 740,431 shares of common stock, respectively. The following table sets forth the number of shares excluded from the computation of diluted loss per share, as their inclusion would have been anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock options	859,500	—	859,500	—
Warrants	858,436	—	858,436	—
	<u>1,717,936</u>	<u>—</u>	<u>1,717,936</u>	<u>—</u>

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, “Compensation—Stock Compensation”, which requires compensation costs to be recognized at grant date fair value over the requisite service period of each of the awards. The Company recognizes forfeitures of awards as they occur.

The fair value of stock options is determined using the Black-Scholes-Merton option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including risk-free interest rate, volatility, expected dividend yield and expected life. Changes to assumptions could cause significant adjustments to the valuation.

New Accounting Pronouncements

In May 2021, the FASB issued ASU 2021-04, “Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the Emerging Issues Task Force).” ASU 2021-04 requires issuers to account for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. Under the guidance, an issuer determines the accounting for the modification or exchange based on whether the transaction was done to issue equity, to issue or modify debt, or for other reasons. ASU 2021-04 is applied prospectively and is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company adopted this standard in the first quarter of fiscal 2022, which did not have a material impact on the Company’s financial statements or disclosures.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. Under ASU 2020-06, the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. Similarly, equity-classified convertible preferred stock instruments will be accounted for as single units of account in equity unless the conversion feature needs to be bifurcated under Topic 815. The new guidance also made amendments to the earnings per share guidance in Topic 260, Earnings Per Share, for convertible instruments, the most significant impact of which is requiring the use of the if-converted method for diluted earnings per share calculation. Further, ASU 2020-06 made revisions to Subtopic 815-40, which provides guidance on how an entity must determine whether a contract qualifies for a scope exception from derivative accounting. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Adoption of the standard requires using either a modified retrospective or a full retrospective approach. Effective January 1, 2021, the Company early adopted ASU 2020-06 using the modified retrospective approach. Adoption of the new standard did not have a material impact on the Company’s financial statements or disclosures.

In January 2020, the FASB issued ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The new guidance clarifies the interaction of accounting for the transition into and out of the equity method and the accounting for measuring certain purchased options and forward contracts to acquire investments. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Effective January 1, 2021, the Company adopted ASU 2020-01. The adoption of this guidance did not have an impact on the Company’s financial statements or disclosures.

Accounting Guidance Issued but Not Yet Adopted

In September 2022, the FASB issued ASU 2022-04, “Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations,” which is intended to enhance the transparency surrounding the use of supplier finance programs in connection with the purchase of goods and services. Supplier finance programs may also be referred to as reverse factoring, payables finance, or structured payables arrangements. The amendments in ASU 2022-04 require a buyer that uses supplier finance programs to disclose sufficient qualitative and quantitative information about the program to allow a user of financial statements to understand the program’s nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for all entities for fiscal years beginning after December 15, 2022 on a retrospective basis, including interim periods with those fiscal years, except for the requirement to disclose roll forward information, which is effective prospectively for fiscal years beginning after December 15, 2023. The Company is currently evaluating the impact of this standard on our financial statements.

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions,” which amends the guidance in Topic 820, *Fair Value Measurement*, to clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. In addition, the ASU introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value. ASU 2022-03 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years for public business entities. The Company is currently evaluating the impact of this standard on our financial statements.

In March 2022, the FASB issued ASU 2022-02, “Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,” which addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the current expected credit losses (“CECL”) model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. For entities, such as Expion360 Inc., that have *not* yet adopted the CECL accounting model in ASU 2016-13, the effective date for the amendments in ASU 2022-02 is the same as the effective date in ASU 2016-13 (i.e., fiscal years beginning after December 15, 2022, including interim periods within those fiscal years). The Company is currently evaluating the impact of this standard on our financial statements.

In October 2021, the FASB issued ASU 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.” ASU 2021-08 requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with Topic 606, Revenue from Contracts with Customers, on the acquisition date as if the acquirer had entered into the original contract at the same date and on the same terms as the acquiree. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for public business entities. The Company is currently evaluating the impact of this standard on our financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This ASU replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates on certain types of financial instruments, including trade receivables. In addition, new disclosures are required. The ASU, as subsequently amended, is effective for the Company for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of adopting this guidance.

3. Property and Equipment, Net

Property and equipment consist of the following:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Vehicles and transportation equipment	\$ 471,359	\$ 298,752
Leasehold improvements	314,819	59,316
Office furniture and equipment	188,131	105,003
Manufacturing equipment	168,099	—
Warehouse equipment	81,164	44,356
QA equipment	22,142	—
Tooling and Molds	15,992	15,992
	<u>1,261,706</u>	<u>523,419</u>
Less: accumulated depreciation	(201,763)	(96,190)
Property and equipment, net	<u>\$ 1,059,943</u>	<u>\$ 427,229</u>

Depreciation expense was \$48,364 and \$16,422 for the three months ended September 30, 2022 and 2021, respectively. Depreciation expense was \$115,670 and \$38,176 for the nine months ended September 30, 2022 and 2021, respectively.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	<u>As of September 30,</u> <u>2022</u>	<u>As of December 31,</u> <u>2021</u>
Accrued salaries and payroll liabilities	\$ 182,283	\$ 12,449
Rebate liability	26,015	23,010
Commissions	14,575	29,120
Deferred income and deposit (sublease)	14,168	13,690
Franchise tax	9,300	9,300
Accrued interest	268	26,301
Other	1,416	26,748
Accrued expenses and other current liabilities	<u>\$ 248,025</u>	<u>\$ 140,618</u>

5. Liabilities for Sale of Future Revenues

On December 8, 2020 and January 26, 2021, Reliant Funding, under two separate ACH Total Receipts Purchase Agreements (“Purchase Agreements”), purchased a 50% interest in the Company’s future revenues for a total aggregate purchase price of \$250,000. Pursuant to the terms of the Purchase Agreements, the purchased percentage continued to be owned by Reliant Funding, until the Company paid the full purchased amount of \$349,750. Repayment of the purchased amount was achieved through 252 daily bank account withdrawals of \$1,388 through December 15, 2021 and \$694 thereafter through January 26, 2022. During the three months ended September 30, 2021, the Company repaid a total of \$88,826, including \$21,299 of interest. There were no payments made in the three months ended September 30, 2022. During the nine months ended September 30, 2022 and 2021, the Company repaid a total of \$11,797 and \$250,516, respectively, including \$295 and \$87,219, respectively, of interest. Interest was recognized at an effective annual interest rate of approximately 71%. As of December 31, 2021, the Company had a total remaining liability related to the Purchase Agreements of \$11,502 and total remaining payments of \$11,797 (including interest). The Purchase Agreements were secured by substantially all of the assets of the Company. As of September 30, 2022 the Company had no remaining liability related to the Purchase Agreements.

6. Short-Term Revolving Loans

From January 2020 to October 2020, the Company received funds totaling \$900,000 under four unsecured Working Capital Loan Agreements (“WC Loans”) from two different third-party lenders. As of December 31, 2021, a balance of \$550,000 remained outstanding under the WC Loan Agreements and in accordance with the modified terms, the Company was subject to monthly extended maturity interest of one percent on the ending outstanding monthly balance which increased one percent for each month beyond the extended maturity date. The WC Loans were repaid in full in April 2022.

The terms of each WC Loan are summarized below:

- \$150,000 limit - dated January 25, 2020; monthly interest-only payments at 10% annual interest, principal payment of \$70,000 paid during the year ended December 31, 2020, balance of \$80,000 due 12 months from date of issue and paid in full at maturity in 2021.
- \$150,000 limit - dated January 28, 2020; monthly interest-only payments at 12% annual interest; principal due 12 months from date of issue. This note was modified effective January 1, 2021 to extend the maturity date to December 31, 2021 (see below) and was paid in full with a payment of \$50,000 in July 2021 and \$100,000 in September 2021.

- \$200,000 limit – dated March 22, 2020; monthly interest-only payments at 15% annual interest; principal due 12 months from date of issue. This note was modified effective January 1, 2021 to extend the maturity date to December 31, 2021. The Company paid \$50,000 towards the principal balance in November 2021. The balance of \$150,000 was paid in full in April 2022 (see below).
- \$400,000 limit – dated August 31, 2020; monthly interest-only payments at 10% annual interest; pursuant to the WC Loan, the maturity was to be determined by mutual agreement and was to be at least 30 days after a maturity date is agreed upon. The note was modified effective January 1, 2021 to establish a maturity date of December 31, 2021, and was paid in full in April 2022 (see below).

Effective January 1, 2021, as noted above, three of the working capital loan agreements, all from the same investor, were modified. The modification was to extend the maturity date on two of the notes from January 28, 2021 and March 22, 2021 to December 31, 2021, and to establish a maturity date of December 31, 2021 for the WC Loan that left the maturity date open to negotiations in the original agreement.

As of December 31, 2021, a balance of \$550,000 remained outstanding under the WC Loan Agreements and in accordance with the modified terms, the Company was subject to monthly extended maturity interest of one percent on the ending outstanding monthly balance which increased one percent for each month beyond the extended maturity date. The Company remained in compliance with all interest payments and paid the WC Loans in full in April 2022.

All fees incurred in connection with obtaining and modifying these agreements were nominal and, given the short-term maturity of one year, were expensed as incurred. There was no accounting impact to the financial statements related to the modifications.

7. Long-Term Debt

Long-term debt consisted of the following at September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Senior secured promissory notes – various investors. Monthly payments of interest only at 10% plus deferred interest of 5% accrued monthly to be paid at maturity. A minimum of one year interest is due at maturity. Matures the earlier of (a) May 15, 2023, (b) the closing of a qualified subsequent financing or (c) the closing of a change of control. The notes are senior to all other debt and are secured by substantially all assets of the Company. The notes included detachable warrants to purchase 482,268 shares of common stock at an exercise price of \$3.32 per share (see Note 12 – Stockholders' Equity). Debt issuance costs and discount totaling \$1,287,160 at date of issuance were being amortized and recognized as additional interest expense over the term of the notes using the straight-line method because it was not substantially different from the effective interest rate method. We determined the expected life of the notes to be the contractual term. Interest expense related to these notes includes amortization of debt issuance costs and discount in the amount of \$0 and \$1,196,843, respectively, for the three months and nine months ended September 30, 2022. Paid in full in April 2022	\$ —	\$ 1,600,000
Note payable – bank. Payable in monthly installments of \$332, including interest at 5.8% per annum, due August 2025, secured by equipment and personally guaranteed by the current CEO.	10,670	13,135
Note payable – credit union. Payable in monthly installments of \$508, including interest at 5.45% per annum, due July 2026, secured by a vehicle and personally guaranteed by the current CEO.	20,613	24,259

Note payable – SBA. Economic Injury Disaster Loan payable in monthly installments of \$731, including interest at 3.75% per annum, due May 2050, and personally guaranteed by the current CEO.	150,898	153,193
Note payable – individual. Monthly payments of interest only at 10% per annum, matured December 31, 2021 resulting in the entire principal balance recorded in current portion of long-term debt on the accompanying Balance Sheets; pursuant to the note, the past due balance is subject to 1% additional monthly interest which increases one percent for each month beyond maturity date, unsecured. The Company remained in compliance with the extended maturity interest payments; paid in full in April 2022	—	100,000
Note payable – finance company. Payable in monthly installments of \$994, including interest at 8.5% per annum, due July 2026, secured by a vehicle and personally guaranteed by a shareholder. Paid in full September 2022.	—	45,832
Note payable – finance company. Payable in monthly installments of \$2,204, including interest at 11.21% per annum, due August 2026, secured by a vehicle and personally guaranteed by the current CEO.	84,201	96,155
Notes payable – The Company has six and two notes payable to GM Financial for vehicles at September 30, 2022 and December 31, 2021. In April 2022, the Company secured a commercial line up to \$300,000 to be used to finance vehicle purchases. The agreement expires in April 2023 but prevailing GM Financial existing term notes will remain. The notes are payable in aggregate monthly installments of \$4,676, including interest at rates ranging from 5.89% to 7.29% per annum, mature at various dates from October 2027 to May of 2028, and are secured by the related vehicles. Two of the notes are personally guaranteed by the current CEO.	258,012	94,890
Total	<u>\$ 524,394</u>	<u>\$ 2,127,464</u>
Less unamortized debt issuance costs and discount	—	(1,196,843)
Less current portion	(70,285)	(51,135)
Less note payable in default (paid April 2022)	—	(100,000)
Long-term debt, net of unamortized debt discount and current portion	<u>\$ 454,109</u>	<u>\$ 779,486</u>

Future maturities of long-term debt are as follows:

Years ending September 30,

2023	\$ 70,285
2024	75,949
2025	81,805
2026	80,962
2027	56,410
Thereafter	158,983
Total	<u>\$ 524,394</u>

8. Shareholder Promissory Notes

As of September 30, 2022 and December 31, 2021, the Company had an outstanding principal balance of \$825,000 due to shareholders under unsecured Promissory Notes Agreements (“Notes”). The Notes require monthly interest-only payments at 10% per annum. The Notes mature at various dates from August 2023 to December 2024 as follows: August 2023 - \$500,000; January 2024 - \$125,000; and December 2024 - \$200,000.

On May 15, 2021, the Company modified another shareholder Note in the amount of \$250,000 to be a convertible note for the same amount. The shareholder also invested additional proceeds of \$24,000 for a total convertible note of \$274,000. The convertible note included detachable warrants to purchase 548,000 shares of the Company's common stock. The convertible note bore interest at a rate of 10% per annum, had an initial maturity of two years from date of issue, and was convertible at \$0.50 per share. The modification resulted in a new effective annual interest rate of 9.15%. There was no accounting impact to the financial statements related to these modifications. On October 29, 2021, concurrent with the anticipated conversion from an LLC to a C corporation, the convertible note and warrants were modified under a Convertible Debenture Exercise and Waiver and Release Agreement and the shareholder agreed to convert the note and accrued interest into 236,498 shares of common stock resulting in a conversion price of \$1.21 per share (see Note 9 – Convertible Notes).

Interest paid to the shareholders under the Notes totaled \$20,627 and \$48,444 during the three months ended September 30, 2022 and September 30, 2021, respectively. Interest paid to the shareholders totaled \$61,881 and \$101,281, respectively, during the nine months ended September 30, 2022 and 2021, respectively. There was no accrued interest as of September 30, 2022 or December 31, 2021 related to these Notes.

9. Convertible Notes

2020 Convertible Notes – Converted January 1, 2021

Effective January 1, 2021, convertible debt holders were offered the opportunity for early conversion of their convertible notes into Class B LLC member units. Three of the four convertible note holders converted notes with a principal balance of \$170,000 and accrued interest of \$3,157 into 2,338 Class B member units (the equivalent of 59,515 shares of common stock) at per unit conversion prices ranging from \$67 - \$76 (per share prices ranging from \$2.66 - \$3.00). In accordance with FASB ASC 470-20, *Debt with Conversion and Other Options*, the fair value of the additional units issued under the induced conversion over the value of the number of units issuable under the original terms of the convertible note agreements is recognized as debt conversion expense. Accordingly, upon early conversion on January 1, 2021, the Company recognized \$112,133 of debt conversion expense with a corresponding entry to equity of \$285,290 consisting of the \$173,157 of principal and accrued interest converted and the excess fair value of \$112,133.

The fourth convertible note holder opted out of the early conversion and instead, the original note with a principal balance of \$100,000 was modified into a term loan effective January 1, 2021 (see Note 7 – Long Term Debt). The modification included the elimination of the conversion feature, an increase in the interest rate from the original 6% per annum to 10% per annum, to be paid monthly instead of accrued, and an earlier maturity date of December 31, 2021. The modification resulted in a new effective annual interest rate of 9.58%, and a revised one-year maturity on December 31, 2021 (see Note 6 – Short-Term Revolving Loans). There was no accounting impact to the financial statements related to this modification. The note was paid in full in April 2022.

2021 Convertible Notes/Extinguishment Loss on Debt Settlement

From May to September 2021, the Company received gross proceeds of \$2,929,000 from the issuance of unsecured convertible notes (the "Notes"), of which \$44,000 was received from existing shareholders. Of the total proceeds, \$1,820,000 was received during the three months ended September 30, 2021. Additionally, in May 2021, a shareholder converted a promissory note to a convertible note identical in terms discussed below (see Note 8 – Shareholder Promissory Notes).

At the option of the Note holders and after the completion of a merger with a Special Purpose Acquisition Company ("SPAC") or an Initial Public Offering ("IPO"), the holder could convert all or a part of the outstanding principal and accrued interest into shares of common stock of the merged or public company. The Notes included detachable warrants ("Warrants") to purchase 3,862,000 shares of the merged or public company. The Notes bore interest at a rate of 10% per annum, had an initial maturity of two years from date of issue, and were convertible at per-share prices ranging from \$0.50 to \$2.50. Effective January 1, 2021, the Company early adopted ASU 2020-06, and accordingly, no beneficial conversion features were recognized. The Notes were accounted for in accordance with ASC 470-20, *Debt with Conversion and Other Options* ("ASC 470-20") and ASC 815-40, *Contracts in Entity's Own Equity* ("ASC 815-40"). Under ASC 815-40, to qualify for equity classification (or nonbifurcation, if embedded) the instrument (or embedded feature) must be both (1) indexed to the issuer's stock and (2) meet the requirements of the equity classification guidance. Based upon the Company's analysis, it was determined the Notes do contain embedded features indexed to its own stock, but do not meet the requirements for bifurcation and recognition as derivatives, and therefore do not need to be separately recognized. Accordingly, the proceeds received from the issuance of the Notes were recorded as a single liability measured at amortized cost on the consolidated Balance Sheet. The Company incurred \$148,000 of debt issuance costs relating to the issuance of the Notes, which were recorded as a reduction to the Notes on the Balance Sheet. Of this amount, \$56,000 was incurred during the three months ended September 30, 2021. The debt issuance costs were being amortized and recognized as additional interest expense over the term of the Notes using the straight-line method because it is not substantially different from the effective interest rate. Amortization of debt discount totaled \$16,383 and \$21,104 during the three and six months ended September 30, 2021, respectively. Since the Warrants were not exercisable until a merger with a SPAC or an IPO, there was no impact on the financial statements at date of grant.

On October 29, 2021, in anticipation of conversion from LLC to a C corporation, the Notes and Warrants were modified under Convertible Debenture Exercise and Waiver and Release Agreements with the individual creditors. The Note holders agreed to settle the debt for an aggregate of 1,527,647 shares of common stock with a fair value of \$5,545,359 (\$3.63 per share). Since this transaction involved contemporaneous issuance of shares of common stock by the Company to the Note holders, the Company evaluated the transaction for modification and extinguishment accounting and determined that the debt was extinguished as a result of the issuance of shares that do not represent the exercise of a conversion right contained in the original terms of the Notes at issuance.

The settlement of the debt resulted in a recognized loss of \$2,262,658 recorded as extinguishment loss on debt settlement in November 2021, calculated as the excess of the fair value of shares issued over the carrying amount of the debt. In addition, the fair value of warrants of \$407,700 issued in exchange for services related to the extinguished debt (see Note 12 – Stockholders' Equity) and the unamortized portion of debt discount remaining at date of settlement of \$120,729 were also recorded as extinguishment loss on debt settlement for an aggregate loss of \$2,791,087.

10. Commitments and Contingencies

Operating Leases

The Company leases its warehouses and office space under long-term lease arrangements. None of its leases include characteristics specified in ASC 842, *Leases*, that require classification as financing leases, and accordingly, these leases are accounted for as operating leases. The Company does not recognize a right-of-use asset and lease liability for short term leases, which have terms of 12 months or less. For longer-term lease arrangements that are recognized on the Company's Balance Sheet, the right-of-use asset and lease liability are initially measured at the commencement date based upon the present values of the lease payments due under the leases.

The implicit interest rates of the Company's lease arrangements are generally not readily determinable and as such, the Company applies an incremental borrowing rate, which is established based upon the information available at the lease commencement date, to determine the present value of lease payments due under the arrangement. Under ASC 842, the incremental borrowing rate (IBR) for leases must be (1) a rate of interest over a similar term, and (2) for an amount that is equal to the lease payments. The Company uses both the Federal Reserve Economic Data (FRED) U.S. corporate debt effective yield and the U.S. Treasury rates adjusted for credit spread as the primary data points for purposes of determining the IBR.

In the first quarter of 2022, the Company entered into two new long-term, non-cancelable operating lease agreements for office and warehouse space resulting in the Company recognizing an additional lease liability totaling of \$2,348,509, representing the present value of the lease payments discounted using an effective interest rate of 8.07% and 8.86%, and corresponding right-of-use assets of \$2,348,509. The leases expire in December 2026 and December 2028. The second lease contains one three-year option to renew. The lease is guaranteed by the current CEO.

In the first quarter of 2021, the Company entered into a long-term, non-cancelable operating lease agreement for office and warehouse space resulting in the Company recognizing an additional lease liability totaling of \$1,268,089, representing the present value of the lease payments discounted using an effective interest rate of 7.47% and a corresponding right-of-use asset of \$1,268,089. The lease expires in January 2028 and contains one three-year option to renew. The lease is guaranteed by the current CEO.

The Company has two other leases that expire in January 2023 and February 2025. The leases generally provide for annual increases based on a fixed amount and generally require the Company to pay real estate taxes, insurance, and repairs. Both leases are guaranteed by the current CEO.

The following is a summary of total lease costs during the three months and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease cost	\$ 198,795	\$ 80,931	\$ 561,949	\$ 223,175
Short-term lease costs	450	1,504	3,077	3,223
Variable lease costs	—	—	—	—
Sublease income	(25,022)	(30,360)	(98,364)	(54,677)
	\$ 174,223	\$ 52,075	\$ 466,662	\$ 171,721

The weighted-average remaining lease term was 5.71 years and 5.64 years as of September 30, 2022 and December 31, 2021, respectively. The weighted average discount rate was 8.50% and 8.02%, as of September 30, 2022 and December 31, 2021, respectively. Operating cash flows from the operating leases totaled \$115,442 and \$48,602 for the three months ended September 30, 2022 and 2021, respectively and \$322,112 and \$127,980 for the nine months ended September 30, 2022 and 2021, respectively.

The total lease liability as of September 30, 2022 and December 31, 2021 was \$3,338,046 and \$1,311,649, respectively.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of September 30, 2022, for years ending September 30:

	Total
2023	\$ 729,741
2024	723,081
2025	721,971
2026	727,150
2027	703,541
Thereafter	645,402
Total future minimum lease payments	4,250,886
Less imputed interest	(912,840)
Total	\$ 3,338,046
Current lease liability	\$ 465,471
Noncurrent lease liability	2,872,575
Total	\$ 3,338,046

Subleases

The Company subleases office and warehouse space under three of its existing operating leases with similar terms as the Company's lease agreements. Because the Company is not relieved of its primary obligations under the original lease, the Company accounts for the subleases as a lessor. Sublease rental income is recorded based on the contractual rental payments which are not substantially different from recognition on a straight-line basis over the

lease term and totaled \$25,022 and \$30,360 during the three months ended September, 2022 and 2021, respectively, and \$98,364 and \$54,677 during the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and December 31, 2021, deferred income and a sublease deposit totaled \$14,168 and \$13,690, respectively, and is included in accrued expenses and other current liabilities on the accompanying Balance Sheets.

The following are the total future minimum sublease payments as of September 30, 2022:

Years ending September 30,	
2023	\$ 60,056
2024	35,977
2025	15,175
Total future minimum lease payments	<u>\$ 111,208</u>

Litigation

The Company may be involved from time to time in litigation or claims arising in the ordinary course of its business. While the ultimate liability, if any, arising from these claims cannot be determined with certainty, the Company believes that the resolution of any such matters will not likely have a material adverse effect on the Company's financial statements.

11. Conversion to a C Corporation

Effective November 1, 2021, the Company converted from an LLC to a C corporation under the State of Nevada statutes in anticipation of an upcoming initial public offering, and changed its name to Expion360 Inc. The membership units of the existing LLC members and all existing convertible note holders (see Note 9 - Convertible Notes) converted into an aggregate of 4,181,111 shares of common stock. Additionally, investors purchased 88,889 shares of common stock for total proceeds of \$316,400, and 30,000 shares of common stock were issued in exchange for legal services. The 30,000 shares issued in exchange for legal services were valued at \$108,900 at date of grant based on the per share price of \$3.63 paid for shares issued at the time of the conversion to a C corporation. The Company's issued and outstanding shares of common stock totaled 4,300,000 upon conversion to a C corporation.

12. Stockholders' Equity

The Company is authorized to issue an aggregate of 220,000,000 shares of capital stock, par value \$0.001 per share, consisting of 200,000,000 shares of common stock and 20,000,000 shares of preferred stock. As of September 30, 2022 and December 31, 2021, 6,802,464 and 4,300,000 shares, respectively, of common stock were issued and outstanding. No shares of preferred stock have been issued.

A holder of common stock is entitled to one vote for each share of common stock. The holders of common stock have no conversion, redemption or preemptive rights and shall be entitled to receive dividends when, as, and if declared by the board of directors. Upon dissolution, liquidation, or winding up of the Company, after payment or provision for payment of debts and other liabilities of the Company, subject to the rights, if any, of the holders of any class or series stock having a preference over the right to participate with common stock with respect to the distribution of assets of the Company upon such dissolution, liquidation, or winding up of the Company, the holders of common stock shall be entitled to receive the remaining assets of the Company available for distribution to its stockholders ratably in proportion to the number of shares of common stock held.

Since no shares of preferred stock have been issued, no rights and privileges of preferred stockholders have been defined.

Initial Public Offering

On April 1, 2022, the Company completed an initial public offering ("IPO"). A total of 2,466,750 shares of common stock were sold at \$7.00 per share in the IPO, for total gross proceeds of \$17,267,250. The Company incurred IPO costs of \$2,494,763 resulting in net proceeds of \$14,772,487. Additionally, during the nine months ended September 30, 2022, the Company issued 35,714 shares of common stock at \$7.00 per share to an outside third party in exchange for IPO services. The fair value of the shares of \$249,998 were recorded as an increase to common stock of \$36 (35,714 shares at \$.001 par value) and additional paid in capital of \$249,962 and a corresponding reduction to additional paid in capital of \$249,998, resulting in a net decrease in additional paid in capital of \$36.

Issuance of Shares

Prior to conversion from an LLC to a C corporation, the following membership units were issued and included in the membership units that were converted into 4,181,111 shares of common stock upon the Company's conversion to a C corporation (see Note 11 – Conversion to a C corporation).

- On January 1, 2021, 8,000 membership units (equivalent to 192,234 shares) that were held in Trust were granted to three individuals.
- On January 1, 2021, the Company issued 2,338 Class B member units (equivalent to 59,515 shares of common stock) upon the conversion of convertible notes and accrued interest totaling \$173,157 (see Note 9 - Convertible Notes).
- On January 1, 2021, the Company issued 262 Class B membership units (equivalent to 6,667 shares of common stock) in exchange for building signage valued at \$20,000.
- In March 2021, the Company sold 3,185 Class B membership units (equivalent to 81,106 shares of common stock) to two new members for gross proceeds of \$270,000.
- In April 2021, the company sold 2,972 Class B membership units (equivalent to 75,662 shares of common stock) to one new member for gross proceeds of \$252,000.

Warrants/Options

On April 1, 2022, the Company issued warrants to IPO underwriters to purchase 148,005 shares of common stock at an exercise price of \$9.10 per share. The warrants are exercisable 180 days after grant (September 27, 2022) and expire 5 years from date of grant (March 31, 2027). The fair value of the warrants was determined at date of issuance using the Black-Scholes option-pricing model and the following assumptions: per share price of common stock on date of grant of \$7, expected dividend yield of 0%, expected volatility of 110.03%, risk-free interest rate of 2.55% and expected life based on contractual life of 5 years. The fair value of \$916,238 was recorded as an increase in additional-paid-in capital and a reduction to additional paid-in capital since the warrants were issued as IPO fees to underwriters, resulting in a zero impact to additional paid-in capital.

In November 2021, the Company issued 482,268 detachable warrants with secured promissory notes (see Note 7 – Long-Term Debt) for the purchase of common stock. The relative fair value of the warrants of \$809,806 at the time of issuance was recorded as additional paid-in capital with a corresponding debt discount reducing the carrying value of the notes. Additionally, the Company issued 77,163 warrants to purchase shares of common stock to underwriters in connection with obtaining the notes. The fair value of the warrants of \$262,354 was recorded as additional paid-in capital and reduced the carrying value of the notes. The warrants are exercisable at \$3.32 per share for a period of 10 years from date of grant. The fair value of the warrants was determined at date of issuance using the Black-Scholes option-pricing model and the following assumptions: per share price of common stock on date of grant of \$3.63, expected dividend yield of 0%, expected volatility of 110.8%, risk-free interest rate of 1.63% and expected life based on contractual life of 10 years.

Also in November 2021, the Company issued warrants to purchase 151,000 shares of common stock in exchange for prior services related to extinguished 2021 convertible notes and 30,000 options for the purchase of common stock in exchange for legal services. The warrants are exercisable at \$2.90 per share for a period of three years from the date of grant. The options are exercisable at \$3.32 per share for a period of three years from the date of grant. The options issued were not issued under the Company's stock option plans. The fair value of the warrants of \$407,700 was recorded as additional paid-in-capital and expensed to extinguishment loss on debt settlement (see Note 9 – Convertible Notes.) The fair value of the options of \$79,200 was recorded as additional paid-in capital with a corresponding charge to legal expense. The fair value of the warrants and options was determined at date of issuance using the Black-Scholes option-pricing model and the following assumptions: per share price of common stock on date of grant of \$3.63, expected dividend yield of 0%, expected volatility of 122.7%, risk-free interest rate of 0.71% and expected life based on contractual life of three years.

As of September 30, 2022 and December 31, 2021, a total of 858,436 and 710,431 warrants were issued and outstanding, respectively. As of September 30, 2022 and December 31, 2021, a total of 30,000 options, which were not issued under a specified plan, were outstanding. As of September 30, 2022, below is a summary of the various warrants/options issued and outstanding:

Number of warrants/non-plan options	Exercise Price	Weighted Average Remaining Life (Yrs)
559,431	\$3.32	9.15
151,000	\$2.90	2.11
30,000	\$3.32	2.11
148,005	\$9.10	4.50
888,436		

Stock Option Plans

As of September 30, 2022, the Company had adopted two stock-based compensation plans, the 2021 Incentive Award Plan and the 2021 Employee Stock Purchase Plan, both of which are described below and became effective upon the initial public offering. On May 2, 2022, the Company granted 829,500 options under the 2021 Incentive Award Plan. No shares have been issued to date under the 2021 Employee Stock Purchase Plan. The compensation cost that has been charged against operations was \$2,114,529 for the nine-month period ended September 30, 2022.

2021 Incentive Award Plan

The purpose of the Company's 2021 Incentive Award Plan is to enhance the Company's ability to attract, retain and motivate persons who make (or are expected to make) important contributions to the Company by providing these individuals with equity ownership opportunities. Various stock-based awards may be granted under the plan to eligible employees, consultants, and non-employee directors. The number of shares issued under the plan is subject to limits and is adjusted annually. No more than 1,000,000 shares may be issued pursuant to the exercise of incentive stock options. The aggregate share limit will be subject to an annual increase on the first day of each calendar year ending on and including January 1, 2031, by a number of shares equal to the lesser of (i) a number equal to 5% of the aggregate number of shares of the Company's common stock outstanding on the final day of the immediately preceding calendar year and (ii) such smaller number of shares as is determined by the Company's board or committee. As of September 30, 2022, the aggregate number of shares that can be issued under the Plan is 859,500 of which 829,500 have been granted. The number of shares granted, the exercise price, and the terms will be determined at date of grant, however, the exercise price shall not be less than 100% of the fair value on the grant date (110% for options granted to greater than 10% shareholders) and the term shall not exceed ten years.

2021 Employee Stock Purchase Plan

The purpose of the Company's 2021 Employee Stock Purchase Plan is to assist eligible employees of the Company in acquiring a stock ownership in the Company and to help such employees provide for their future security and to encourage them to remain in the employment of the Company. The plan consists of a Section 423 Component and Non-Section 423 Component. The Section 423 Component is intended to qualify as an employee stock purchase plan and also authorizes the grant of options. Options granted under the Non-Section 423 Component shall be granted pursuant to separate offerings containing sub-plans. The Company may make one or more offerings under the plan. The duration and timing of each offering period may be established or changed by the board, but in no event may an offering period exceed 27 months and in no event may the purchase period for the option exceed the duration of the offering period under which it is established. On each exercise date for an offering period, each participant shall automatically be deemed to have exercised the option to purchase the largest number of whole shares which can be purchased under the offering. Option awards are generally granted with an exercise price equal to 85% of the lesser of the fair market value of a share on (a) the applicable grant date and (b) the applicable exercise date, or such other price as designated by the administrator, provided that in no event shall the option price be less than the per share par value price. The maximum number of shares granted under the plan shall not exceed 2,500,000 shares.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon similar traded companies' historical share price movements as adequate historical experience is not available to provide a reasonable estimate. Expected term is calculated based on the simplified method as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is calculated based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Company has historically not paid dividends and have no foreseeable plans to pay dividends.

The Company has computed the fair value of all options granted during the nine months ended September 30, 2022 using the following assumptions:

Expected volatility	109.48% - 113.32%
Expected dividends	None
Expected term (in years)	2.5 – 5.01
Risk free rate	2.83% – 3.01%

The following table summarizes the Company's stock option activity under the 2021 Incentive Plan:

<i>(in thousands except number of options and per options data)</i>	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (1)
Outstanding at beginning of period	—	\$ —	—	—
Granted	829,500	3.43	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at end of period	829,500	\$ 3.43	8.51	\$ —
Exercisable at end of period	829,500	\$ 3.43	8.51	\$ —

(1) The aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2022 is \$0, as all options are out of the money.

The weighted-average grant-date fair value of the options granted during the nine months ended September 30, 2022 to employees and non-employees was \$1,847,193 and \$267,336, respectively. All options were immediately vested and there was no unrecognized compensation expense as of September 30, 2022.

Common Stock Reserved for Future Issuance

The following is a summary of common stock shares reserved for future issuance as of September 30, 2022:

Exercise of warrants	858,436
Exercise of options unrelated to any Plan	30,000
Exercise of stock options – 2021 Incentive Award Plan	829,500
Total shares of common stock reserved for future issuances	1,717,936

13. Income Taxes

In anticipation of an initial public offering, the Company converted from a limited liability company to a C corporation, a taxable entity, effective November 1, 2021.

Through October 31, 2021, the Company was treated as an S corporation for federal and state income tax purposes, such that the Company's taxable income is reported by members in their respective tax returns and the Company was only subject to state franchise taxes and fees. For the three and nine months ended September 30, 2022 the Company incurred a provision for state franchise fees of \$0 and \$300, respectively. There was no provision recorded for the three and nine months ended September 30, 2021.

Since converting to a C corporation, the Company has incurred losses and consequently recorded no provision for state or federal income taxes for the three and nine months ended September 30, 2022. The Company maintains a full valuation allowance on all deferred tax assets, as it has concluded that it is more likely than not that these assets will not be realized. As of September 30, 2022 and December 31, 2021, there were no material unrecognized tax benefits included in the accompanying balance sheets that would, if recognized, affect the effective tax rate.

14. 401(k) Plan

The Company adopted a 401(k) Plan ("Plan") for the benefit of its employees. Employees may contribute to the Plan within defined limits as defined by the Internal Revenue Service. Substantially all employees are eligible to participate. The Company has the option to make profit sharing contributions at its discretion. No profit-sharing contributions have been made.

15. Related Party Transactions

As of September 30, 2022 and December 31, 2021, related party transactions consisted of Shareholder Promissory Notes (see Note 8 – Shareholder Promissory Notes).

16. Subsequent Events

The date to which events occurring after September 30, 2022, the date of the most recent Balance Sheets, have been evaluated for possible adjustment to the financial statements or disclosures is November 3, 2022, which is the date the financial statements were issued.

On October 26, 2022, the Company filed an S-8 related to its Employee Benefit Plan Security Offering.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related condensed notes thereto, which are included in Part I of this report and the consolidated financial statements of the Company and notes thereto for the years ended December 31, 2020 and 2021, included in the Company’s prospectus, dated March 31, 2022, filed with the SEC in accordance with Rule 424(b) of the Securities Act on April 4, 2022 (the “Prospectus”) in connection with the Company’s initial public offering. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties that may adversely impact our operations and financial results. These risks and uncertainties are discussed in the Prospectus.

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes thereto, which are included in Part I of this report.

We focus on the design, assembly, manufacturing, and sales of lithium iron phosphate (LiFePO₄) batteries and supporting accessories for recreational vehicles (“RVs”) and marine applications with plans to expand into home energy storage products and industrial applications. We design, manufacture, and distribute high-powered, lithium battery solutions using ground-breaking concepts with a creative sales and marketing approach. Our product offerings include some of the most dense and minimal-footprint batteries in the RV & Marine industry. We are developing the e360 Home Energy Storage: a system that we expect to significantly change the industry in barrier price, flexibility, and integration. We are deploying multiple IP strategies with cutting-edge research, manufacturing processes, and unique products to sustain and scale the business. We currently have customers consisting of dealers, wholesalers, and original equipment manufacturers who are driving revenue and brand awareness nationally.

Our corporate headquarters are based in Redmond, Oregon, with assembly in the United States and suppliers based in Asia. We are currently in the process of building out manufacturing capacity at our corporate headquarters. Our long-term target is to onshore the manufacturing of most of our components and assemblies, including cell manufacturing, to the United States.

Our main target markets are the RV & Marine industry. We believe that we are currently well positioned to capitalize on the rapid market conversion from lead-acid to lithium batteries as the primary method of power sourcing in these industries. Additional focus markets include home energy storage, where we aim to provide a cost-effective, low barrier of entry, and a do-it-yourself (“DIY”) flexible system for those looking to power their homes via solar energy, wind, or grid back-up. Along with RV/Marine and home energy storage markets, we aim to provide additional capacities to the ever-expanding electric forklift and industrial material handling markets.

Expion360’s VPR 4EVER product line, which is manufactured for the RV/Marine industry, was launched in December 2020. The VPR 4EVER product line, through its rapid sales growth, has shown to be a preferred conversion solution for lead-acid batteries. We believe that our e360 Home Energy Storage system has strong revenue potential with recurring income opportunities for us and our associated sales partners.

Our products provide numerous advantages for various industries that are looking to migrate to lithium-based energy storage. They incorporate, detailed-oriented design, engineering, and manufacturing, and strong case materials and internal and structural layouts, and are backed by responsive customer service.

COMPETITIVE STRENGTHS

We believe the following strengths differentiate Expion360 and create long-term sustainable competitive advantages.

Superior Capacity to Lead Acid Competitors

Lead-acid batteries have always been the standard in RV and marine transportation vehicles. Our lithium-ion batteries offer superior capacity to our lead-acid competitors. Our batteries utilize lithium iron phosphate, and therefore, are expected to have a lifespan of approximately 12 years — three to four times that of certain lead-acid batteries and with ten times the number of charging cycles. Furthermore, our typical battery provides three times the power of the typical, lead-acid battery despite being half the weight (comparing, for example, a typical lead-acid battery like Renogy Deep Cycle AGM, which is rated at 100Ah, to our own LFP 100Ah battery and assuming slow discharge at a .1C rate).

Battery Pack Flexibility

Our battery packs are also highly flexible, designed to be moved and used in various applications seamlessly. We plan to onshore our semi-automated pack assembly in Redmond, Oregon beginning in the fourth quarter of 2022. This should allow us to use a more flexible approach to forming and creating new battery packs. By onshoring, we expect to be able to react to market demands at a much quicker pace and increase profit levels over our competition.

Strong National Retail Customers

We have a national presence with several large retail customers, such as Camping World.

Long-time RV and Marine Industry Experience and Relationship

John Yozamp, Founder of Expion360, pioneered multiple new recreational concepts in the RV industry. As the founder and previous owner of Zamp Solar, he has extensive relationships in the RV OEM industry.

Strong Insider Ownership

Expion360 is managed by a team with a strong track record in the RV and clean energy spaces. In addition, our company insiders own significant equity in the company, signaling a strong commitment and personal investment.

Expansion into New Markets

While RV and marine applications currently drive revenue, Expion360 has plans to expand into the home energy market in the coming years. Our e360 Home Energy Storage system is planned to target entry level customers with its modular design that will allow for DIY expansion. We see the vision of stored energy as a portable, moving concept, where stored energy can be transported from the home to other devices outside of it. Furthermore, Expion360 plans to file for IP protection for Expion360's "Smart Talk" upon completion of development. "Smart Talk" is designed to allow multiple batteries in a bank to communicate as one and be linked to a network.

Strong Distribution Channels

Expion360 has sales relationships with many major RV and marine retailers and plans to use what we believe is a strong reputation in the lithium battery space to create an even stronger distribution channel. John Yozamp has used his decades of experience in the energy and RV industries to cultivate relationships with numerous retailers in the space. Expion360 has already established a sales relationship with Camping World, the largest RV retailer with sales representing around 25% of all new RVs sold nationwide, as well as Electric World, and NTP-STAG, a leading distributor of aftermarket RV parts.

RECENT DEVELOPMENTS AND TRENDS

In addition to the recent developments identified in the Company's prospectus, dated March 31, 2022, filed with the SEC in accordance with Rule 424(b) of the Securities Act on April 4, 2022 (the "Prospectus") in connection with the Company's initial public offering, our business in 2022 has been impacted, and we believe will continue to be impacted by the following recent events and trends:

On April 1, 2022, the Company completed an initial public offering. A total of 2,466,750 shares of common stock were sold at \$7.00 per share in the IPO, for total gross proceeds of \$17,267,250, or net proceeds of \$14,772,487 after issuance costs of \$2,494,763, which has substantially improved our working capital position. The Company also issued 35,714 shares and 148,005 warrants to outside third parties and underwriters in connection with the IPO. The total estimated fair value of the shares and warrants was \$249,998 and \$916,238, respectively. IPO-related costs incurred reduced additional paid-in capital and therefore, the issuance of these shares and warrants resulted in no impact to the financial statements.

From the IPO proceeds, in April 2022 the Company paid off working capital loans totaling \$550,000 (see Note 6 – Line of Credit and Short-Term Revolving Loans) and notes payable of \$1.7 million, plus related interest totaling \$213,895.

We experienced overall improvements in sales trends in the nine-month period ended September 30, 2022 as compared to the corresponding period in the prior year.

Our new leased distribution center in Elkhart, Indiana became operational in the first quarter of 2022 and our new leased facility in Redmond, Oregon is under development with roughly \$950,000 of proceeds from the IPO earmarked for the construction of a new assembly line and associated equipment for quality testing and material handling. Total capital expenditures related to the new assembly line and associated equipment for the three and nine months ended September 30, 2022 was approximately \$85,000 and \$460,000, respectively.

The Company's 2021 Incentive Award Plan and 2021 Employee Stock Purchase Plan both became effective upon the initial public offering. The stock option plans are described in detail in Note 12 – Stockholders' Equity of the financial statements. In May 2022, 829,500 shares were granted under the 2021 Incentive Award Plan which resulted in a fair value stock-based compensation expense of \$2,114,529, which is included in selling, general, and administrative expenses on the accompanying financial statements.

KEY LINE ITEMS

Revenue Recognition

The Company's revenue is generated from the sale of products consisting primarily of batteries and accessories. The Company recognizes revenue when control of goods or services is transferred to its customers in an amount that reflects the consideration it is expected to be entitled to in exchange for those goods or services. Materially, all of our sales are within the United States.

Cost of Sales

Our primary cost of sales is related to our direct product and landing costs. Direct labor costs consist of payroll costs (including taxes and benefits) of employees directly engaged in assembly activities. Overhead consists primarily of warehouse rent and utilities. The costs can increase or decrease based on costs of product and assembly parts, purchased at market pricing, customer supply requirements, and the amount of labor required to assemble a product, along with the allocation of fixed overhead.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, benefits, and sales and marketing costs. Other costs include facility and related costs, professional fees and other legal expenses, consulting, tax and accounting services, sales and marketing expenses.

Interest and Other Income, net

Interest expense consists of interest costs on loans with interest rates ranging from 3.75% to 11.21% and amortization of debt issuance costs. As of September 30, 2022, all debt issuance costs have been fully amortized.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

RESULTS OF OPERATIONS

The following table sets forth certain operational data as a percentage of sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	70.9	59.9	65.7	63.1
Gross profit	29.1	40.1	34.3	36.9
Selling, general, and administrative expenses	120.2	54.5	112.9	45.5
Loss from operations	(91.0)	(14.4)	(125.7)	(11.8)
Other expense — net	1.5	12.1	43.4	19.6
Loss before income taxes	(92.5)	(26.5)	(169.2)	(31.4)
Net loss	(92.5)	(26.5)	(169.2)	(31.4)

Sales

Sales for the three months ended September 30, 2022 increased by 3.9%, or approximately \$52,000, compared to the corresponding period in 2021. Sales for the nine months ended September 30, 2022 increased by 78.9%, or approximately \$2.53 million, compared to the corresponding period in 2021. The increases were primarily attributable to increases in our overall sales volumes as a result of our expanded product offerings and distribution network.

Cost of Sales

Total cost of sales for the three months ended September 30, 2022 increased by 23.0%, or approximately \$183,000, compared to the corresponding period in 2021, and increased as a percentage of sales by 11.0%. Total cost of sales for the nine months ended September 30, 2022 increased by 86.2%, or approximately \$1.75 million, compared to the corresponding period in 2021, and increased as a percentage of sales by 2.6%. The increase in the cost of sales during the three and nine months ended September 30, 2022 over the corresponding periods in 2021 were primarily related to increases in facilities costs and labor as we expanded our operations, and in landed costs, which the Company is currently monitoring.

Gross Profit

Our gross profit as a percentage of sales decreased to 29.1% for the three months ended September 30, 2022, compared to 40.1% for the three months ended September 30, 2021. Our gross profit as a percentage of sales decreased to 34.3% for the nine months ended September 30, 2022, compared to 36.9% for the nine months ended September 30, 2021. The decrease in gross profit for the nine-month period was primarily attributable to increases in facilities costs and labor as we expanded our operations, and in landed costs, which the Company is currently monitoring.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2022 increased by 129.1%, or approximately \$936,000, compared to the corresponding period in 2021. Selling, general and administrative expenses for the nine months ended September 30, 2022 increased 343.7%, or approximately \$5.02 million, compared to the corresponding period in 2021 primarily due to increased costs to support our growth in sales and business development efforts along with various expenses that were incurred due to planning and preparing for our initial public offering. The most substantial increases were in salaries and benefits, of which \$2,114,529 was a non-cash expense attributable to stock-based compensation, legal and professional services incurred in anticipation of our initial public offering, sales and marketing, and rents and utilities.

Presented in the table below is the composition of selling, general and administrative expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Salaries and benefits	\$ 723,225	\$ 329,019	\$ 4,153,793	\$ 649,837
Legal and professional	255,726	172,389	518,258	196,088
Sales and marketing	215,994	71,325	527,732	216,021
Rents, maintenance, utilities	158,640	32,840	469,437	121,932
Travel expenses	85,564	27,437	158,718	43,190
Fees	51,633	18,335	127,694	53,159
Depreciation	44,112	15,165	107,005	34,449
Insurance	41,676	18,254	81,077	25,614
Research and development	41,355	3,205	153,730	15,417
Supplies, office	31,796	19,440	118,764	60,695
Other	12,284	18,120	63,746	43,967
Total	<u>\$ 1,662,005</u>	<u>\$ 725,529</u>	<u>\$ 6,479,954</u>	<u>\$ 1,460,369</u>

Other Expense

Our other expense for the three months ended September 30, 2022 and 2021 was approximately \$20,000 and \$162,000, respectively. Our other expense for the nine months ended September 30, 2022 and 2021 was approximately \$1.56 million and \$455,000, respectively. Other expense for the three and nine months ended September 30, 2022 was made up almost entirely of interest expense, except that during the three months ended September 30, 2022, a gain on sale of property and equipment of approximately \$13,000 reduced other expense. For the three months ended September 30, 2022 and 2021, interest expense attributable to non-cash amortization of debt discount totaled \$0 and \$16,383, respectively. During the nine months ended September 30, 2022 and 2021, non-cash amortization of debt discount totaled \$1,196,843 and \$21,104, respectively. However, during the three months ended September, 2021, non-cash interest expense of \$112,133 was also recognized in connection with an induced conversion that occurred on January 1, 2021. Interest expense attributable to debt obligations totaled \$34,016 and \$145,418 during the three months ended September 30, 2022 and 2021, respectively, and \$375,005 and \$322,800 during the nine months ended September 30, 2022 and 2021, respectively. In April 2022, with the use of proceeds from the IPO, the Company paid off approximately \$2.46 million in debt with interest rates ranging from 10 to 15%.

Net Loss

Our net loss for the three months ended September 30, 2022 and 2021 was approximately \$1.28 million and \$353,000, respectively. Our net loss for the nine months ended September 30, 2022 and 2021 was approximately \$6.07 million and \$730,000, respectively. The increase in net loss was primarily the result of increased selling, general, and administrative expenses as we invested in human resources, facilities, and business development in preparation of our expanded growth objectives along with an increase in legal and professional costs in connection with of our initial public offering. Additionally, for the nine months ended September 30, 2022, the Company recognized approximately \$2.1 million in non-cash expenses related to stock-based compensation, which was non-existent in the corresponding period in 2021. Further, and as noted above, for the nine months ended September 30, 2022, the company recognized non-cash interest expense of approximately \$1.2 million. Therefore, of the \$6.07 million net loss for the nine months ended September 30, 2022, a total of \$3.3 million was non-cash expenses.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2022 and December 31, 2021, our current assets exceeded current liabilities by approximately \$12.82 million and \$3.18 million respectively, and we had cash and cash equivalents of approximately \$8.12 million and \$773,000, respectively. On April 1, 2022, we closed our initial public offering which resulted in approximately \$14.7 million of net proceeds.

Short-term liquidity requirements

We generally consider our short-term liquidity requirements to consist of those items that are expected to be incurred within the next twelve months and believe those requirements to consist primarily of funds necessary to pay operating expenses, interest and principal payments on our debt, and capital expenditures related to assembly line expansion. As of September 30, 2022, we expect our short-term liquidity requirements to include (a) approximately \$490,000 of capital additions; (b) principal debt payments totaling approximately \$70,000; and (c) lease obligation payments of approximately \$730,000, including imputed interest.

Long-term liquidity requirements

We generally consider our long-term liquidity requirements to consist of those items that are expected to be incurred beyond the next twelve months and believe these requirements consist primarily of funds necessary for eighteen months.

Based on our current business plan, we believe that cash flows from operations, together with the proceeds from the initial public offering will be sufficient to meet our anticipated cash needs for working capital, capital expenditures, and debt service for at least the next twelve months. Our ability to make scheduled principal and interest payments, or to refinance our indebtedness, or to fund planned capital expenditures, will depend on future performance, which is subject to general economic conditions, the competitive environment, and other factors, including those outlined in the “Risk Factors” section of this prospectus. If our estimates of revenues, expenses, capital, or liquidity requirements change or are inadequate to support our growth or if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity and/or arrange additional debt financing. We may also seek to raise additional equity and/or arrange debt financing to give us the financial flexibility to pursue attractive opportunities that may arise in the future.

Cash flows used in operating activities

We generated negative cash flows from operating activities of approximately \$4.70 million for the nine months ended September 30, 2022, compared to negative cash flows of approximately \$2.77 million for the corresponding period in 2021. Significant factors affecting operating cash flows during the periods included:

For the nine months ended September 30, 2022, our loss of \$6,067,193 was adjusted and reduced by non-cash transactions including stock-based compensation of approximately \$2.1 million, amortization of debt discount on convertible notes of approximately \$1.2 million and depreciation of approximately \$116,000. For the nine months ended September 30, 2021, our loss of \$730,403 was adjusted and reduced by non-cash transactions including amortization of debt discount on convertible notes of approximately \$21,000, a debt conversion expense on induced conversion of approximately \$112,000 and depreciation of approximately \$38,000.

- Cash provided/(used) by accounts receivable was approximately \$475,000 and (\$532,000), representing a decrease in accounts receivable for the nine months ended September 30, 2022 and an increase in accounts receivable for the nine months ended September 30, 2021, respectively. Sales are generally collected within 30 to 45 days. The decrease during the nine months ended September 30, 2022 is primarily attributed to a decline in September sales compared to sales in December 2021. The increase during the nine months ended September 30, 2021 correspond with increases in sales.
- Accounts payable and accrued expenses increased by approximately \$20,000 during the nine months ended September 30, 2022 compared to approximately \$8,000 for the corresponding period in 2021. This is primarily attributed to increased costs and expenses.
- Other significant changes include a decrease in customer deposits of approximately \$275,000 during the nine months ended September 30, 2022, representing a use of cash that did not exist in the corresponding period in 2021. Additionally, long-term deposits increased by approximately \$11,000 during the nine months ended September 30, 2022 compared to \$48,000 for the corresponding period in 2021, primarily due to new leases in 2021 and deposits on capital purchases in 2022.

Cash used for inventory and prepaid inventories was approximately \$2.17 million and \$1.70 million for the nine months ended September 30, 2022 and 2021, respectively. These increases are primarily due to significant purchases and prepayments of inventory to Chinese suppliers that were made in the 3rd quarter of 2022 in order to have sufficient inventory for projected sales in 2022 and 2023. Turnaround time for receiving inventory from foreign sources can take up to 120 days, with prepayments required. Sales for the nine months ended September 30, 2022 increased over sales for the nine months ended September 30, 2021 by approximately \$2.53 million.

Cash flows used in investing activities

We used cash in investing activities of approximately \$383,000 and \$94,000 for the nine months ended September 30, 2022 and 2021, respectively. Cash used for capital purchases of property and equipment related to expanding and improving our facilities and infrastructure was approximately \$434,000 and \$94,000, respectively, during the nine months ended September 30, 2022. Net proceeds of approximately \$51,000 was received for the sale of property and equipment during the nine months ended September 30, 2022. We anticipate that we will spend up to \$950,000 in 2022 as we expand our production facilities and build new assembly lines.

Cash flows provided by financing activities

Cash provided by financing activities was approximately \$12.4 million and \$2.9 million for the nine months ended September 30, 2022 and 2021, respectively. For the nine months ended September 30, 2022 we paid down debt principal of approximately \$2.3 million compared to \$498,000 for the nine months ended September 30, 2021. During the nine months ended September 30, 2022, the Company issued no new debt resulting in cash proceeds, whereas during the nine months ended September 30, 2021, we obtained working capital financing of \$125,000 and received proceeds from the issuance of convertible notes of \$2.78 million. During the nine months ended September 30, 2022, we received net cash proceeds of \$14.77 million from the sale of common stock compared to \$522,000 during the nine months ended September 30, 2021.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial results are affected by the selection and application of accounting policies and methods. Critical accounting policies are those that we consider to be the most important in portraying our financial condition and results of operations and require the greatest number of judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. In the nine months ended September 30, 2022, there were no changes to the application of critical accounting policies previously disclosed in the Company's prospectus, dated March 31, 2022, filed with the SEC in accordance with Rule 424(b) of the Securities Act on April 4, 2022 (the "Prospectus") in connection with the Company's initial public offering, other than the following:

The Company accounts for stock-based compensation in accordance with ASXC 718, "Compensation – Stock Compensation," which requires compensation costs to be recognized at grant fair date value over the requisite service period of each of the awards. The Company recognizes forfeitures of awards as they occur.

The fair value of stock options is determined using the Black-Scholes-Merton option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including risk-free interest rate, volatility, expected dividend yield, and expected life. Changes to assumptions could cause significant adjustments to the valuation.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this report, other than statements of historical fact, are “forward-looking statements” for purposes of these provisions, including, without limitation, any projections of earnings, revenues or other financial items, any statements of the plans and objectives of our management for future operations, any statements concerning proposed new products or services, any statements regarding the integration, development, or commercialization of the business or any assets acquired from other parties, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “should,” “anticipates,” “intends,” “seeks,” “believes,” “estimates,” “potential,” “forecasts,” “continue,” or other forms of these words or similar words or expressions, or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct. Actual results will likely differ, and could differ materially, from those projected or assumed in the forward-looking statements. Prospective investors are cautioned not to unduly rely on any such forward-looking statements.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- We operate in an extremely competitive industry and are subject to pricing pressures.
- We have a history of losses. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.
- Our results of operation may be negatively impacted by public health epidemics or outbreaks, including the novel coronavirus (“COVID-19”).
- If we fail to expand our sales and distribution channels, our business could suffer.
- Our ability to expand into international markets is uncertain.
- Nearly all of our raw materials enter the United States through a limited number of ports, and we rely on third parties to store and ship some of our inventory; labor unrest at these ports or other product delivery difficulties could interfere with our distribution plans and reduce our revenue.
- The uncertainty in global economic conditions could negatively affect the Company’s operating results.
- Government reviews, inquiries, investigations, and actions could harm our business or reputation.
- Our operating results could be adversely affected by changes in the cost and availability of raw materials.
- Increases in costs, disruption of supply, or shortage of any of our battery components, such as electronic and mechanical parts, or raw materials used in the production of such parts could harm our business.
- We could face potential product liability claims relating to products we assemble, manufacture, or distribute, which could result in significant costs and liabilities, which would reduce our profitability.
- Our operations expose us to litigation, tax, environmental, and other legal compliance risks.
- Our failure to introduce new products and product enhancements and broad market acceptance of new technologies introduced by our competitors could adversely affect our business.
- Quality problems with our products could harm our reputation and erode our competitive position.
- We depend on our senior management team and other key employees, and significant attrition within our management team or unsuccessful succession planning could adversely affect our business.
- Sales of substantial amounts of our securities in the public markets, or the perception that such sales might occur, could reduce the price of our securities and may dilute your voting power and your ownership interest in us.
- Our management team has limited experience managing a public company.

- We are an “emerging growth company” and elect to comply with certain reduced reporting requirements applicable to emerging growth companies, which could make our securities less attractive to investors.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Our actual results will likely differ, and may differ materially, from anticipated results. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and we assume no obligation to update or disclose revisions to those estimates. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections.

NOTICE REGARDING TRADEMARKS

This report includes trademarks, tradenames, and service marks that are our property or the property of others. Solely for convenience, such trademarks and tradenames sometimes appear without any “™” or “®” symbol. However, failure to include such symbols is not intended to suggest, in any way, that we will not assert our rights or the rights of any applicable licensor, to these trademarks and tradenames.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are disclosed in the Company’s prospectus, dated March 31, 2022, filed with the SEC in accordance with Rule 424(b) of the Securities Act on April 4, 2022 (the “Prospectus”) in connection with the Company’s initial public offering. During the three and nine months ended September, 2022, there were not material changes from the information provided therein.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures for our company. Consequently, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of September 30, 2022. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the nine months ended September 30, 2022, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not involved in any material legal proceedings.

ITEM 1A. RISK FACTORS

Any of the risk factors disclosed in our reports could materially affect our business, financial condition or future results. The risks described here are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results, particularly in light of the precarious and unpredictable nature of the COVID-19 pandemic, containment measures, the potential for future waves of outbreaks and the related impacts to economic and operating conditions.

Cautionary Note Regarding Forward-Looking Statements

These reports contain “forward-looking statements.” Forward-looking statements reflect the current view about future events. All statements, other than statements of historical facts, regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, objectives of management or other financial items are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will,” “would” and similar expressions, or the negative of these terms or similar expressions, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees of assurance of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, without limitation:

Summary of Risk Factors

- We operate in an extremely competitive industry and are subject to pricing pressures.
- We have a history of losses. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.
- Our audited financial statements included a statement that there is a substantial doubt about our ability to continue as a going concern and a continuation of negative financial trends could result in our inability to continue as a going concern.
- Our results of operations may be negatively impacted by public health epidemics or outbreaks, including the novel coronavirus (“COVID-19”).
- If we fail to expand our sales and distribution channels, our business could suffer.
- Our ability to expand into international markets is uncertain.
- Nearly all of our raw materials enter the United States through a limited number of ports and we rely on third parties to store and ship some of our inventory; labor unrest at these ports or other product deliver difficulties could interfere with our distribution plans and reduce our revenue.
- The uncertainty in global economic conditions could negatively affect the Company’s operating results.

- Government reviews, inquiries, investigations, and actions could harm our business or reputation.
- Our operating results could be adversely affected by changes in the cost and availability of raw materials.
- Increases in costs, disruption of supply or shortage of any of our battery components, such as electronic and mechanical parts, or raw materials used in the production of such parts could harm our business.
- We could face potential product liability claims relating to products we assemble, manufacture or distribute which could result in significant costs and liabilities, which would reduce our profitability.
- Our operations expose us to litigation, tax, environmental and other legal compliance risks.
- Our failure to introduce new products and product enhancements and broad market acceptance of new technologies introduced by our competitors could adversely affect our business.
- Quality problems with our products could harm our reputation and erode our competitive position.
- We depend on our senior management team and other key employees, and significant attrition within our management team or unsuccessful succession planning could adversely affect our business.
- Sales of substantial amounts of our securities in the public markets, or the perception that such sales might occur, could reduce the price of our securities and may dilute your voting power and your ownership interest in us.
- Our management team has limited experience managing a public company.
- We are an “emerging growth company” and elect to comply with certain reduced reporting requirements applicable to emerging growth companies, which could make our securities less attractive to investors.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance or achievements. 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.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS INDEX

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report.

- 31.1 Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

Date: November 3, 2022

By: _____
John Yozamp
Chief Executive Officer

Date: November 3, 2022

By: _____
Brian Schaffner
Chief Financial Officer

CERTIFICATION

I, John Yozamp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Expion360 Inc. (the "Registrant");
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ John Yozamp

John Yozamp
Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Brian Schaffner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Expion360 Inc. (the "Registrant");
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls 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 general 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Brian Schaffner

Brian Schaffner
Chief Financial Officer
(principal financial officer)

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Expion360 Inc. (the "Company") for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, John Yozamp, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

/s/ John Yozamp

John Yozamp
Chief Executive Officer
(principal executive officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Expion360 Inc. (the "Company") for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Brian Schaffner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

/s/ Brian Schaffner

Brian Schaffner
Chief Financial Officer
(principal financial officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.