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 June 30, 2023

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	**81-2701049**
(state or other jurisdiction of incorporation or organization)	(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 August 9, 2023**
Common Stock, $.001 par	6,910,717

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Expion360 Inc.
Balance Sheets

	June 30, 2023 (unaudited)	December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	$ 3,596,243	$ 7,201,244
Accounts receivable, net	409,196	298,035
Inventory	4,967,325	4,530,136
Prepaid/in-transit inventory	160,854	141,611
Prepaid expenses and other current assets	183,970	171,791
Total current assets	9,317,588	12,342,817
Property and equipment	1,378,398	1,394,619
Accumulated depreciation	(343,772)	(250,861)
Property and equipment, net	1,034,626	1,143,758
Other Assets		
Operating leases – right-of-use asset	2,913,768	3,148,455
Deposits	66,696	63,901
Total other assets	2,980,464	3,212,356
Total assets	$ 13,332,678	$ 16,698,931
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 219,491	$ 230,250
Customer deposits	156,938	58
Accrued expenses and other current liabilities	305,575	306,164
Current portion of operating lease liability	491,070	465,055
Current portion of stockholder promissory notes	125,000	500,000
Current portion of long-term debt	49,290	71,426
Total current liabilities	1,347,364	1,572,953
Long-term debt, net of current portion and discount	324,220	439,049
Operating lease liability, net of current portion	2,508,738	2,754,964
Stockholder promissory notes, net of current portion	700,000	325,000
Total liabilities	$ 4,880,322	$ 5,091,966

(continued on next page)

Expion360 Inc.
Balance Sheets – Continued

	June 30, 2023 (unaudited)	December 31, 2022
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; 6,910,717 and 6,802,464 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	6,911	6,802
Additional paid-in capital	25,541,002	25,239,654
Accumulated deficit	(17,095,557)	(13,639,491)
Total stockholders' equity	8,452,356	11,606,965
Total liabilities and stockholders' equity	$ 13,332,678	$ 16,698,931

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Operations (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Sales, net	$ 1,725,123	$ 2,202,720	$ 3,232,300	$ 4,358,064
Cost of sales	1,270,724	1,496,394	2,334,454	2,789,884
Gross profit	454,399	706,326	897,846	1,568,180
Selling, general and administrative	1,951,664	3,621,572	4,072,559	4,817,948
Loss from operations	(1,497,265)	(2,915,246)	(3,174,713)	(3,249,768)
Other (Income) / Expense				
Interest income	(47,764)	(94)	(67,897)	(94)
Interest expense	26,399	1,175,719	64,576	1,537,832
Loss on sale of property & equipment	3,426	—	3,426	—
Settlement expense	—	—	281,680	—
Other (income) / expense	(500)	15	(394)	83
Total other (income) / expense	(18,439)	1,175,640	281,391	1,537,821
Loss before taxes	(1,478,826)	(4,090,886)	(3,456,104)	(4,787,589)
Franchise taxes / (refund)	(38)	150	(38)	300
Net loss	$ (1,478,788)	$ (4,091,036)	$ (3,456,066)	$ (4,787,889)
Net loss per share (basic and diluted)	$ (0.21)	$ (0.62)	$ (0.50)	$ (0.88)
Weighted-average number of common shares outstanding	6,910,491	6,638,825	6,862,747	5,469,413

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Stockholders' Equity (Deficit) for Six Months ended June 30, 2023 and 2022 (Unaudited)

	Common Stock			Additional Paid-in Capital		Accumulated Deficit	Total Stock-holders' Equity (Deficit)
	Shares		Amount				
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	4,300,000	$	4,300	$8,355,140	$	(6,799,804)	$1,559,636
Issuance of shares, 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	6,802,464	$	6,802	$25,239,654	$	(10,890,840)	$14,355,616
Balance at December 31, 2022	6,802,464	$	6,802	$25,239,654	$	(13,639,491)	$11,606,965
Proceeds received from exercise of warrants	46,102		47	49,740		—	49,787
Stock issued as a result of litigation settlement	52,000		52	251,628		—	251,680
Net loss	—		—	—		(1,977,278)	(1,977,278)
Balance at March 31, 2023	6,900,566	$	6,901	$25,541,022	$	(15,616,769)	$9,931,154
Exercise of warrants	10,151		10	(20)		—	(10)
Net loss	—		—	—		(1,478,788)	(1,478,788)
Balance at June 30, 2023	6,910,717	$	6,911	$25,541,002	$	(17,095,557)	$8,452,356

The accompanying notes are an integral part of these financial statements

Expion360 Inc.
Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities		
Net loss	$ (3,456,066)	$ (4,787,889)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	101,992	67,306
Amortization of debt discount (sale of future revenues)	—	295
Amortization of debt discount - notes	—	1,196,843
Loss on sale of property and equipment	3,426	—
Increase / (Decrease) in allowance for doubtful accounts	(18,804)	19,604
Stock-based settlement	251,680	—
Stock-based compensation	—	2,114,529
Changes in operating assets and liabilities:		
Increase in accounts receivable	(92,359)	(44,721)
Increase in inventory	(437,190)	(706,277)
Increase in prepaid/in-transit inventory	(19,243)	(285,994)
Increase in prepaid expenses and other current assets	(12,178)	(66,852)
Increase in deposits	(2,795)	(160,694)
Decrease in accounts payable	(10,759)	(27,131)
Increase / (Decrease) in customer deposits	156,881	(187,539)
Increase / (Decrease) in accrued expenses and other current liabilities	(589)	120,971
Increase in right-of-use assets and lease liabilities	14,477	19,621
Net cash used in operating activities	(3,521,527)	(2,727,928)
Cash flows from investing activities		
Purchases of property and equipment	(34,250)	(138,674)
Net proceeds from sale of property and equipment	37,964	—
Net cash provided by / (used in) investing activities	3,714	(138,674)
Cash flows from financing activities		
Payments on line-of-credit and short-term revolving loans	—	(550,000)
Payments on liability for sale of future revenues	—	(11,797)
Principal payments on long-term debt	(136,965)	(1,726,850)
Net proceeds from exercise of warrants	49,777	—
Net proceeds from issuance of common stock	—	14,772,487
Net cash provided by / (used in) financing activities	(87,188)	12,483,840
Net change in cash and cash equivalents	(3,605,001)	9,617,238
Cash and cash equivalents, beginning	7,201,244	773,238
Cash and cash equivalents, ending	$ 3,596,243	$ 10,390,476

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

	For the Six Months Ended June 30,	
Supplemental disclosure of cash flow information:	**2023**	**2022**
Cash paid for interest	$ 64,798	$ 360,067
Cash paid / (refunded) for franchise taxes	$ (39)	$ 300
Non-cash financing activities:		
Acquisition/modification of operating lease right-of-use asset and lease liability	$ (13,993)	$ 2,348,509
Purchases of property and equipment in exchange for long-term debt	$ —	$ 181,430
Purchased 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 stockholders of the Company.

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 disrupted and may continue to impact the Company's business. While certain restrictions have eased recently, the magnitude of the impact of any new measures from a resurgence in 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 six-month periods ended June 30, 2023 and 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. The unaudited interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 30, 2023.

Unless otherwise noted, all references to shares and stockholders 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.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no effect on the reported results of operations.

Going Concern, Liquidity and Capital Resources

The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding before the Company achieves sustainable revenues and profit from operations. The Company expects to continue to incur additional losses for the foreseeable future, and the Company may need to raise additional debt or equity financing to expand its presence in the marketplace, develop new products, achieve operating efficiencies, and 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.

As presented in the accompanying financial statements, the Company has sustained recurring losses and negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern within twelve months after the date that the financial statements for the three and six month periods ended June 30, 2023 are issued. However, management is working to address its cash flow challenges, including raising additional capital, managing inventory levels, identifying alternative supply chain resources, and continuing to develop in-house assembly lines.

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 three months ended June 30, 2023 decreased 21.7% and sales for the six months ended June 30, 2023 decreased 25.8% compared to the same periods in 2022. For the six months ended June 30, 2023, we received net proceeds of $49,777 from warrant exercises. 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. The remaining proceeds have thus far and will continue to 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 and help reduce 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 accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

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. Cash accounts are secured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution. At times, balances may exceed federally insured limits. Investment accounts are placed in funds consisting of US Treasury-related ultra-short paper. 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 June 30, 2023, cash balances exceeded FDIC limits by $624,952 and investment accounts totaling $2,567,798 are invested in US Treasury-related ultra-short paper.

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. For the three months ended June 30, 2023 and 2022, the Company wrote off $0 and $19,604, respectively. For the six months ended June 30, 2023 and 2022, the Company received $800 against bad debt expense and wrote off $19,604, respectively. There was no allowance for doubtful accounts as of June 30, 2023 or December 31, 2022, as management believed all outstanding amounts to be fully collectible.

Customer Deposits

As of June 30, 2023 and December 31, 2022, the Company had customer deposits totaling $156,938 and $58, 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. As of June 30, 2023 and December 31, 2022, the Company had inventory that consisted of finished assemblies totaling $2,342,945 and $2,722,765, respectively, and raw materials (inventory components, parts, and packaging) totaling $2,624,380 and $1,807,371, 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 June 30, 2023 or December 31, 2022. The Company prepays for inventory purchases from foreign suppliers. Prepaid inventory totaled $160,854 and $141,611 at June 30, 2023 and December 31, 2022, 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 June 30, 2023 and 2022, respectively, approximately 74% and 96%, respectively, of inventory purchases were made from foreign suppliers in China and Hong Kong. During the six months ended June 30, 2023 and 2022, respectively, approximately 80% and 91%, 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
Tooling and molds	3 - 10 years
QA equipment	3 - 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 or six months ended June 30, 2023 or 2022.

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 warrantied for two years from the date of sale and its branded VPR 4EVER Classic and Platinum batteries are warrantied 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 June 30, 2023 and December 31, 2022 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 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.

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 June 30, 2023, sales to two customers totaled $504,334, comprising approximately 30% of total sales. These customers represented 29% of total accounts receivable as of June 30, 2023. During the six months ended June 30, 2023, sales to two customers totaled $708,042, comprising approximately 22% of total sales. These customers represented 29% of total accounts receivable as of June 30, 2023. Accounts receivable from one additional customer totaled $63,388, representing approximately 16% of accounts receivable as of June 30, 2023.

During the three months ended June 30, 2022, sales to two customers totaled $672,180, comprising approximately 31% of total sales. These customers represented 46% of total accounts receivable as of June 30, 2022. During the six months ended June 30, 2022, sales to one customer totaled $1,218,581, comprising approximately 28% of total sales. This customer represented 35% of total accounts receivable as of June 30, 2022. Accounts receivable from two additional customers totaled $202,717, representing approximately 25% of accounts receivable as of June 30, 2022.

Shipping and Handling Costs

Shipping and handling fees billed to customers are classified on the Statement of Operations as "Sales, net" and totaled $15,365 and $7,230 during the three months ended June 30, 2023 and 2022, respectively, and $24,898 and $11,381 during the six months ended June 30, 2023 and 2022, respectively. Shipping and handling costs for shipping product to customers totaled $48,549 and $43,934 during the three months ended June 30, 2023 and 2022, respectively, and $91,757 and $82,658 during the six months ended June 30, 2023 and 2022, 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 $297,673 and $151,701 for the three months ended June 30, 2023 and 2022, respectively and $452,832 and $311,738 for the six months ended June 30, 2023 and 2022, 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 $94,078 and $107,058 for the three months ended June 30, 2023 and 2022, respectively, and $171,258 and $112,375 for the six months ended June 30, 2023 and 2022, respectively, and are included in selling, general and administrative expenses in the accompanying Statements of Operations.

Income Taxes

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 June 30, 2023 and December 31, 2022, 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 2023 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, stockholder 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 stockholder 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (1,478,788)	$ (4,091,036)	$ (3,456,066)	$ (4,787,889)
Weighted average common shares outstanding – basic and diluted	6,910,491	6,638,825	6,862,747	5,469,413
Basic and diluted net loss per share	$ (0.21)	$ (0.62)	$ (0.50)	$ (0.88)

As of June 30, 2023 and December 31, 2022, the Company has outstanding warrants and options convertible into 1,607,330 and 1,717,936 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.

As of:	June 30, 2023	December 31, 2022
Stock options	829,500	829,500
Warrants	777,830	888,436
	1,607,330	1,717,936

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 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 adopted this standard effective January 1, 2023, and the adoption of this guidance did not have an impact on the Company’s financial statements or disclosures.

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 adopted this standard effective January 1, 2023, and the adoption of this guidance did not have an impact on the Company’s financial statements or disclosures.

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 adopted this standard effective January 1, 2023, and the adoption of this guidance did not have an impact on the Company’s financial statements or disclosures.

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 adopted this standard effective January 1, 2023, and 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 March 2023, the FASB issued ASU 2023-02, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.” This ASU was issued to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits. ASU 2023-02 is effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. 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.

3. Property and Equipment, Net

Property and equipment consist of the following:

	June 30, 2023	December 31, 2022
Vehicles and transportation equipment	$ 551,905	$ 593,097
Leasehold improvements	314,819	314,819
Office furniture and equipment	188,131	188,131
Manufacturing equipment	179,274	179,274
Warehouse equipment	81,164	81,164
Tooling and Molds	37,873	15,992
QA equipment	25,232	22,142
	$ 1,378,398	$ 1,394,619
Less: accumulated depreciation	(343,772)	(250,861)
Property and equipment, net	$ 1,034,626	$ 1,143,758

Depreciation expense was $53,872 and $38,280 for the three months ended June 30, 2023 and 2022, respectively. Depreciation expense was $101,992 and $67,306 for the six months ended June 30, 2023 and 2022, respectively.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	As of June 30, 2023	As of December 31, 2022
Accrued salaries and payroll liabilities	$ 236,592	$ 169,337
Commissions	26,276	9,720
Rebate liability	26,015	26,015
Deferred income and deposit (sublease)	4,445	14,168
Franchise tax	3,606	400
Accrued interest	—	222
Other	8,641	86,302
Accrued expenses and other current liabilities	$ 305,575	$ 306,164

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 June 30, 2022, the Company repaid a total of $11,797, including $295 of interest. There were no payments made in the three months ended June 30, 2023. Interest was recognized at an effective annual interest rate of approximately 71%. The Purchase Agreements were secured by substantially all of the assets of the Company. As of June 30, 2023 and December 31, 2022, the Company had no remaining liability related to the Purchase Agreements.

6. Short-Term Revolving Loans

In 2020, the Company received funds under four unsecured Working Capital Loan Agreements ("WC Loans"). As of December 31, 2022, the loans had been repaid and a balance of $0 was 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:

- $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).

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 June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
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 10 – Stockholders' Equity in Item 1 – Financial Statements of Part I – Financial Information). 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 $982,317 and $1,196,843, respectively, for the three months and six months ended June 30, 2022, respectively. The notes were paid in full in April 2022.	$ —	$ —
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 a co-founder.	8,096	9,825
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 a co-founder.	16,815	19,364
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 a co-founder.	148,535	150,114
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 for the year ending December 31, 2021; 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 and paid the note in full in April 2022.	—	—
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 stockholder. The Note was paid in full September 2022.	—	—
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 a co-founder. The note was paid in full January 2023.	—	79,963
Notes payable – The Company has acquired six notes payable to GM Financial for vehicles. In April 2022, the Company secured a commercial line up to $300,000 to be used to finance vehicle purchases. The agreement expired in April 2023 but was renewed for a commercial line up to $350,000 and prevailing GM Financial existing term notes will remain. The new agreement expires in April 2024. One note was paid off when the corresponding vehicle was sold in May 2023, so there are five notes remaining at June 30, 2023. The notes are currently payable in aggregate monthly installments of $4,084, 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 a co-founder.	200,064	251,209
Total	$ 373,510	$ 510,475
Less current portion	(49,290)	(71,426)
Long-term debt, net of unamortized debt discount and current portion	$ 324,220	$ 439,049

Future maturities of long-term debt are as follows:

Twelve months ending June 30,		
2024	$	49,290
2025		52,447
2026		52,360
2027		48,780
2028		39,676
Thereafter		130,957
Total	$	373,510

8. Stockholder Promissory Notes

As of both June 30, 2023 and December 31, 2022, the Company had an outstanding principal balance of $825,000 due to stockholders under unsecured Promissory Notes Agreements ("Notes"). The Notes require monthly interest-only payments at 10% per annum. The Notes mature at various dates from January 2024 to December 2024 as follows: January 2024 - $125,000; August 2024 - $500,000 (this note would have matured at August 2023, but in June 2023, an agreement was signed extending the maturity date to August 2024); and December 2024 - $200,000.

Interest paid to the stockholders under the Notes totaled $20,627 and $13,751 during the three months ended June 30, 2023 and June 30, 2022, respectively. Interest paid to the stockholders under the Notes totaled $41,254 and $34,378 during the six months ended June 30, 2023 and June 30, 2022, respectively, with $6,876 accrued interest as of June 30, 2022. There was no accrued interest as of June 30, 2023 or December 31, 2022 related to these Notes.

9. 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 a co-founder.

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 a co-founder.

The Company has two other leases—one that expired in January 2023 and one that expires in 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 a co-founder.

The following is a summary of total lease costs during the three months and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease cost	$ 187,315	$ 198,794	$ 375,344	$ 363,154
Short-term lease costs	—	790	150	2,627
Variable lease costs	—	—	—	—
Sublease income	(10,440)	(24,743)	(29,036)	(73,342)
	$ 176,875	$ 174,841	$ 346,458	$ 292,439

The weighted-average remaining lease term was 5.01 years and 5.49 years as of June 30, 2023 and December 31, 2022, respectively. The weighted average discount rate was 8.48% and 8.48%, as of June 30, 2023 and December 31, 2022, respectively. Operating cash flows from the operating leases totaled $114,110 and $112,914 for the three months ended June 30, 2023 and 2022, respectively, and $206,217 and $206,670 for the six months ended June 30, 2023 and 2022, respectively.

The total lease liability as of June 30, 2023 and December 31, 2022 was $2,999,808 and $3,220,019, respectively.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2023, for years ending June 30:

	Total
2024	$ 726,300
2025	731,575
2026	722,239
2027	713,041
2028	593,930
Thereafter	225,139
Total future minimum lease payments	$ 3,712,224
Less imputed interest	(712,416)
Total	$ 2,999,808

Current lease liability	$ 491,070
Noncurrent lease liability	2,508,738
Total	$ 2,999,808

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 $10,440 and $24,743 during the three months ended June 30, 2023 and 2022, respectively, and $29,036 and $60,856 during the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and December 31, 2022, deferred income and a sublease deposit totaled $4,445 and $14,168, 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 June 30, 2023:

Twelve months ending June 30,		
2024	$	42,178
2025		28,675
Total future minimum lease payments	$	70,853

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.

On November 22, 2022, Expion360 Inc. (the "Company") received notice of a complaint (the "Complaint") filed against it in Oregon state court by Ravi Sinha. The Complaint alleges, *inter alia*, that Mr. Sinha is entitled to 282,284 shares of the Company's common stock, or in the alternative, $300,000 plus interest in connection with services he previously rendered the Company as its chief executive officer. On March 21, 2023, the Company entered into a settlement agreement with Mr. Sinha and the matter has been resolved with cash and the issuance of common stock (see Note 10 – Stockholders' Equity in Item 1 – Financial Statements of Part I – Financial Information).

10. 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. On March 31, 2023, at the closing price of $4.84 per share, the Company issued 52,000 shares of common stock as part of the settlement agreement with Mr. Sinha dated March 21, 2023. As of June 30, 2023 and December 31, 2022, 6,910,717 and 6,802,464 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 year ended December 31, 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.

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.

During the six months ended June 30, 2023, 15,000 warrants exercisable at $3.32 per share were exercised on a cash basis which resulted in the issuance of 15,000 shares of common stock. In addition, 22,606 warrants exercisable at $3.32 per share were exercised using the cashless conversion option, which resulted in the issuance of 10,151 shares of common stock. This leaves 521,825 warrants remaining with an exercise price of $3.32.

During the six months ended June 30, 2023, 73,000 warrants exercisable at $2.90 per share were exercised using the cashless conversion option which resulted in the issuance of 31,102 shares of common stock. This leaves 78,000 warrants remaining with an exercise price of $2.90.

As of June 30, 2023 and December 31, 2022, a total of 747,830 and 858,436 warrants were issued and outstanding, respectively. As of June 30, 2023 and December 31, 2022, a total of 30,000 options, which were not issued under a specified plan, were outstanding. As of June 30, 2023, 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)
521,825	$3.32	8.40
78,000	$2.90	1.36
30,000	$3.32	1.36
148,005	$9.10	3.75
777,830		

Stock Option Plans

As of June 30, 2023, 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 year ended December 31, 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 June 30, 2023, the aggregate number of shares that can be issued under the Plan is 1,199,623 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% stockholders) 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 that 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 year ended December 31, 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 Company did not grant any options during the three or six months ending June 30, 2023.

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

(in thousands except number of options and per options data)	**Number of options**	**Weighted average exercise price**	**Weighted average remaining contractual term (in years)**	**Aggregate intrinsic value (1)**
Outstanding at beginning of period	829,500	$ 3.43	—	$ 1,280,965
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at end of period	829,500	$ 3.43	7.76	$ 1,280,965
Exercisable at end of period	829,500	$ 3.43	7.76	$ 1,280,965

(1) The aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2023 is $1,280,965, as all options are in the money.

During the three months ended June 30, 2023, the weighted-average grant-date fair value of the options granted 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 June 30, 2023.

Common Stock Reserved for Future Issuance

The following is a summary of common stock shares reserved for future issuance as of June 30, 2023:

Exercise of warrants	747,830
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	1,607,330

11. Income Taxes

The Company has incurred losses and consequently recorded no provision for state or federal income taxes for the three or six months ended June 30, 2023. 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 June 30, 2023 and December 31, 2022, there were no material unrecognized tax benefits included in the accompanying balance sheets that would, if recognized, affect the effective tax rate. For the three months ended June 30, 2023, the Company received a refund of $38 for state taxes overpaid for the 2021 tax year, and for the three months ended June 30, 2022, the Company incurred state taxes of $150. For the six months ended June 30, 2023, the Company received a refund of $38 for state taxes overpaid for the 2021 tax year, and for the six months ended June 30, 2022, the Company incurred state taxes of $300.

12. 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.

13. Related Party Transactions

As of June 30, 2023 and December 31, 2022, related party transactions consisted of Stockholder Promissory Notes (see Note 8 – Stockholder Promissory Notes in Item 1 – Financial Statements of Part I – Financial Information).

14. Subsequent Events

The date to which events occurring after June 30, 2023, the date of the most recent Balance Sheets, have been evaluated for possible adjustment to the financial statements or disclosures is August 9, 2023, which is the date the financial statements were issued. There were no material subsequent events that require recognition of additional disclosure in these financial statements.

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 unaudited interim financial statements and related notes for the three and six months ended June 30, 2023 and 2022 included elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report") as well as our audited financial statements and related notes for the fiscal years ended December 31, 2022 and 2021, included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 30, 2023 (the "2022 Form 10-K"). 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 this Quarterly Report, including in Item 1A "Risk Factors" of Part II Other Information and "Cautionary Notice Regarding Forward-Looking Statements" below. Percentage amounts included in this section have not in all cases been calculated on the basis of rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this section may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Certain other amounts that appear in this section may not sum due to rounding.

OVERVIEW

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, assemble, and distribute high-powered, lithium battery solutions using ground-breaking concepts with a creative sales and marketing approach. We believe that 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 and unique products to sustain and scale the business. We currently have customers consisting of dealers, wholesalers, private label customers 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 and Europe. 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 currently the RV & Marine industry. We believe that we are 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 e360 product line, which is manufactured for the RV/Marine industry, was launched in December 2020. The e360 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 and engineering 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. The initial equipment has arrived and subject to market conditions, we are working on the setup and development of additional equipment to automate the line. 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.

Long-time RV and Marine Industry Experience and Relationship

Expion360 is managed by a team with a strong track record in the RV and clean energy spaces. John Yozamp, Co-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. In addition, our co-founders 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.

In furtherance of our vision of stored energy, in January 2023, Expion360 introduced two portable power generator products: the AURA POWERCAP™ 600 and AURA POWERCAP™ 800 (together, the “Aura”). The AURA POWERCAP™ 600 is designed to fit and convert any one of Expion360’s group 24 lithium batteries into a 600W mobile power station while the AURA POWERCAP™ 800 is designed to fit and convert any one of Expion360’s group 27 lithium batteries into an 800W mobile power station. The Aura’s proprietary patent pending design allows the AURA POWERCAP™ 600 to join seamlessly to 60Ah, 80Ah, and 95Ah Expion360 batteries and the AURA POWERCAP™ 800 to join to 100Ah and 120Ah Expion360 batteries. The AURA POWERCAP™ 600 and AURA POWERCAP™ 800 are an exclusive fit to Expion360 batteries and will not fit other brands. The AURA POWERCAP™ 600 and AURA POWERCAP™ 800 contain beneficial features and functions for a compact portable power unit, including the ability to recharge the battery from the input charge port using the included 7 Amp household charger and the ability to recharge remotely with Expion360’s lightweight portable solar panel options, which are sold separately.

Additionally, in June 2023, Expion360 unveiled e360 SmartTalk, an innovative mobile app that allows the seamless integration and management of e360 Bluetooth enabled lithium iron phosphate (LiFePO4) batteries. The technology enables users to wirelessly monitor and manage e360 batteries, providing a view of individual battery conditions and performance as well as a comprehensive view of an entire power bank consisting of multiple e360 batteries. The 48 Volt GC2 LiFePO4 battery was also introduced in June 2023 as our first e360 SmartTalk Battery for powering electric golf carts and other light electric vehicles (LEVs).

Strong National Retail Customers and Distribution Channels

Expion360 has sales relationships with many major RV retailers and with 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. The Company's Co-Founder, 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 several large retail customers, including Camping World, a leading national RV retailer, as well as NTP-STAG, and Meyer Distributing, both distributors of aftermarket RV parts.

RECENT DEVELOPMENTS AND TRENDS

Key Factors Affecting Our Operating Results

Our operating results and financial performance are significantly dependent on the following factors:

Consumer Demand

Although most of our current sales are generated through dealers, wholesalers and original equipment manufacturers ("OEM") focused on the RV and marine markets, ultimate demand for our products is reliant on demand from consumers. Our sales are completed on a purchase order basis, and most are without firm, long-term revenue commitments or sales arrangements, which we expect to continue going forward. Therefore, our future sales will be subject to risks and uncertainties related to end user demand.

Demand from end users is affected by a number of factors which may include fuel costs, overall macroeconomic conditions, and travel restrictions (resulting from COVID-19 or otherwise). During the COVID-19 pandemic, the increased adoption of the RV lifestyle benefited battery suppliers. However, more recently we have seen a rise in fuel costs, higher interest rates, and other changes in macroeconomic conditions which have created a decrease in end user spending decisions which is affecting our markets. These conditions could have a negative effect on our business.

While RV and marine applications drive current revenues, 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. The success of our strategy requires (1) continued growth of these addressable markets in line with our expectations and (2) our ability to successfully enter these markets. We expect to incur significant marketing costs understanding these new markets, and researching and targeting customers in these end markets, which may not result in sales. If we fail to execute on this growth strategy in accordance with our expectations, our sales growth would be limited to the growth of existing products and existing end markets.

Manufacturing and Supply Chain

Our batteries are manufactured by multiple third-party manufacturers located in China, who also produce our battery cells. We then assemble and package the batteries in the United States for sale to our customers. While we do not have long-term purchase arrangements with our third-party manufacturers and our purchases are completed on a purchase order basis, we have had strong relationships with our third-party manufacturers spanning many years. Our close working relationships with our China-based third-party manufacturers and cell suppliers, reflected in our ability to increase our purchase order volumes (qualifying us for related volume-based discounts) and to order and receive delivery of cells in anticipation of required demand, has helped us moderate increased supply-related costs associated with inflation, currency fluctuations, and U.S. government tariffs imposed on our imports and to avoid potential shipment delays. We aim to maintain an appropriate level of inventory to satisfy our expected supply requirements. We believe that we could locate alternative third-party manufacturers to fulfill our needs.

Our third-party manufacturers source the raw materials and battery components required for the production of our batteries directly from third party suppliers that meet our approval and quality standards, and as a result, we may have limited control over the agreed pricing for these raw materials and battery components. We estimate that raw material costs account for over half of our cost of goods sold. The costs of these raw materials, particularly lithium-ion batteries, are volatile and beyond our control. Additionally, availability of the raw materials used to manufacture our products may be limited at times, resulting in higher prices and/or the need to find alternative suppliers. For example, a global shortage and component supply disruptions of electronic battery components are currently being reported, and the full impact to us is yet unknown. Our battery cell manufacturers also have joint venture factories outside of China and have secured sourcing contracts from lithium suppliers in South America and Australia. In addition, 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.

Product and Customer Mix

We sell seven models of LiFEPO4 batteries, the AURA POWERCAP, and individual or bundled accessories for battery systems. Our products are sold to different customers (i.e., dealers, wholesalers, OEMs, etc.) at differing prices and have varying costs. The average selling price and costs of goods sold for a particular product, will vary with changes in the sales channel mix, volume of products sold, and the prices of such products sold relative to other products. While we work with our suppliers to limit price and supply cost increases, our products may see price increases resulting from a rise in supply costs due to currency fluctuations, inflation, and tariffs. Accessory and OEM sales typically have lower average selling prices and resulting margins which could decrease our margins and therefore negatively affect our growth or require us to increase the prices of our products. However, the benefits of increased sales volumes typically offset these reductions. The relative margins of products sold also impact our results of operation. As we introduce new products, we may see a change in product and sales channel mix which could result in period-to-period fluctuations in our overall gross margin.

Competition

We compete with both traditional lead-acid and lithium-ion battery manufacturers that primarily either import their products or components or manufacture products under a private label. As we develop new products and expand into new markets, we may experience competition with a broader range of companies. These companies may have more resources than us and be able to allocate more resources to their current and future products. Our competitors may source products or components at a lower cost than us which may require us to evaluate our own costs, lower our product prices, or increase our sales volume to maintain our expected profitability levels.

Research and Development

We anticipate that additional investments in our infrastructure and research and development spending will be required to scale our operations and increase productivity, to address the needs of our customers, to further develop and enhance our service, and to expand into new geographic areas and market segments.

New technologies are rapidly emerging in the markets where we conduct business and many new energy storage technologies have been introduced over the past several years. Our ability to achieve significant and sustained penetration of key developing markets, including the RV and marine markets, will depend upon our success in developing these and other technologies, either independently, through joint ventures, or through acquisitions, which in each case may require significant capital and commitment of resources to research and development. As a result, we may need to raise additional funds for these research and development efforts.

KEY LINE ITEMS

Revenue

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 as a percentage 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. Per full absorption cost accounting, overhead related to our cost of sales is added, consisting 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, and tax and accounting services.

Interest and Other Income, net

Interest expense consists of interest costs on loans with interest rates ranging from 3.75% to 10.0% and amortization of debt issuance costs. As of June 30, 2023, all debt issuance costs have been fully amortized.

Provision for Income Taxes

The Company is 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 existing 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.

The Company has adopted the provisions in ASC 740, Income Taxes, related to accounting for uncertain tax positions. It requires that the Company recognize the impact of a tax position in the financial statements if the position is more likely than not to be sustained upon examination and on the technical merits of the position. Management has concluded that there were no material unrecognized tax benefits as of June 30, 2023 or December 31, 2022.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's balance sheet at June 30, 2023 or December 31, 2022 and did not recognize interest and/or penalties in the statement of operations for the years ended June 30, 2023 and 2022, since there are no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within the next twelve months.

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 June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	73.7	67.9	72.2	64.0
Gross profit	26.3	32.1	27.8	36.0
Selling, general, and administrative expenses	113.1	164.4	126.0	110.6
Loss from operations	(86.8)	(132.4)	(98.2)	(74.6)
Other expense — net	(1.1)	53.4	8.7	35.3
Loss before income taxes	(85.7)	(185.7)	(106.9)	(109.9)
Net loss	(85.7)	(185.7)	(106.9)	(109.9)

Sales, net

Sales, net for the three months ended June 30, 2023 decreased by $478,000, or 21.7%, compared to the three months ended June 30, 2022. Sales were $2.2 million for the three months ended June 30, 2022 and $1.7 million for the three months ended June 30, 2023.

Sales, net for the six months ended June 30, 2023 decreased by $1.1 million, or 25.8%, compared to the six months ended June 30, 2022. Sales were $4.4 million for the six months ended June 30, 2022 and $3.2 million for the six months ended June 30, 2023.

The year over year decrease was primarily attributable to a large initial stocking order for one of our resellers which was fulfilled in the first and second quarters of 2022. Additionally, the second quarter of 2022 included back orders that were fulfilled with inventory purchased with IPO proceeds.

Cost of Sales

Total cost of sales for the three months ended June 30, 2023 decreased by $226,000, or 15.1%, compared to the three months ended June 30, 2022. Cost of sales were $1.5 million for the three months ended June 30, 2022 and $1.3 million for the three months ended June 30, 2023. Cost of sales as a percentage of sales increased by 5.7% in that period.

Total cost of sales for the six months ended June 30, 2023 decreased by $455,000, or 16.3%, compared to the six months ended June 30, 2022. Cost of sales were $2.8 million for the six months ended June 30, 2022 and $2.3 million for the six months ended June 30, 2023. Cost of sales as a percentage of sales increased by 8.2% in that period.

The percentage increase in cost of sales was primarily related to the lower sales volume resulting in lower absorption of our fixed facilities costs and labor, along with changes in product mix related to sales, discount levels related to specific customer groups, and supplier and shipping costs, which the Company is currently monitoring.

Gross Profit

Our gross profit for the three months ended June 30, 2023 decreased by $252,000, or 35.7%, compared to the three months ended June 30, 2022. Gross profit was $706,000 for the three months ended June 30, 2022 and $454,000 for the three months ended June 30, 2023. Gross profit as a percentage of sales decreased by 5.7% for that period, from 32.0% for the three months ended June 30, 2022 to 26.3% for the three months ended June 30, 2023.

Our gross profit for the six months ended June 30, 2023 decreased by $670,000, or 42.7%, compared to the six months ended June 30, 2022. Gross profit was $1.6 million for the six months ended June 30, 2022 and $898,000 for the six months ended June 30, 2023. Gross profit as a percentage of sales decreased by 8.2% for that period, from 36.0% for the six months ended June 30, 2022 to 27.8% for the six months ended June 30, 2023.

The decrease in gross profit was primarily attributable to the lower sales volume resulting in lower absorption of our fixed facilities costs and labor, along with changes in product mix related to sales, discount levels related to specific customer groups, and supplier and shipping costs, which the Company is currently monitoring.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by $1.7 million, or 46.1%, to $2.0 million for the three months ended June 30, 2023 compared to $3.6 million for the three months ended June 30, 2022.

Selling, general and administrative expenses decreased by $745,000, or 15.5%, to $4.1 million for the six months ended June 30, 2023 compared to $4.8 million for the six months ended June 30, 2022. The change is primarily due to a decrease in non-cash stock-based compensation of $2,114,529 which was partially offset by a $759,714 increase in legal and professional services and a $141,094 increase in sales and marketing.

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

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Salaries and benefits	$ 845,479	$ 2,804,205	$ 1,625,738	$ 3,430,567
Legal and professional	318,661	155,964	1,022,246	262,532
Sales and marketing	297,673	151,701	452,832	311,738
Rents, maintenance, utilities	145,148	177,794	294,801	310,797
Research and development	94,078	107,058	171,258	112,375
Software, fees, tech support	56,095	37,138	105,181	76,061
Depreciation	47,919	35,459	88,447	62,893
Travel expenses	38,656	36,506	108,140	73,154
Insurance	34,676	19,813	66,542	39,401
Supplies, office	14,311	56,077	38,712	86,968
Other	58,968	39,857	98,662	51,462
Total	$ 1,951,664	$ 3,621,572	$ 4,072,559	$ 4,817,948

Other Expense

Our other (income)/expense for the three months ended June 30, 2023 and 2022 was ($18,000) and $1.18 million, respectively. Other income for the three months ended June 30, 2023 was made up almost entirely of interest income related to investments. Other expense for the three months ended June 30, 2022 was made up almost entirely of interest expense of debt obligations and the amortization of debt discount.

Our other expense for the six months ended June 30, 2023 and 2022 was $281,000 and $1.54 million, respectively. Other expense for the six months ended June 30, 2023 was made up almost entirely of settlement expense. Other expense for the six months ended June 30, 2022 was made up almost entirely of interest expense of debt obligations and the amortization of debt discount.

During the three months ended June 30, 2023 and 2022, non-cash amortization of debt discount totaled $0 and $982,317, respectively. Interest expense attributable to debt obligations totaled $26,000 and $193,000 during the three months ended June 30, 2023 and 2022, respectively. During the six months ended June 30, 2023 and 2022, non-cash amortization of debt discount totaled $0 and $1.20 million, respectively. Interest expense attributable to debt obligations totaled $65,000 and $341,000 during the six months ended June 30, 2023 and 2022, 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 June 30, 2023 and 2022 was $1.5 million and $4.09 million, respectively. Our net loss for the six months ended June 30, 2023 and 2022 was $3.5 million and $4.79 million, respectively. The decrease in net loss was primarily the result of decreased selling, general, and administrative expenses as we incurred lower non-cash stock-based compensation and no interest expense from the amortization of debt discount. Additionally, for the period ended June 30, 2023, the Company recognized $281,680 in non-cash stock-based settlement expenses, compared to $0 for the period ended June 30, 2022. See Item 1 “Legal Proceedings” of Part II Other Information.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our operations have been financed primarily through net proceeds from the sale of securities and from borrowings. As of June 30, 2023 and December 31, 2022, our current assets exceeded current liabilities by $8.0 million and $10.8 million, respectively, and we had cash and cash equivalents of $3.6 million and $7.2 million, respectively. On April 1, 2022, we closed our initial public offering which resulted in approximately $14.8 million of net proceeds.

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 June 30, 2023, we expect our short-term liquidity requirements to include (a) approximately $379,000 of capital additions; (b) principal debt payments totaling approximately $174,000; and (c) lease obligation payments of approximately $726,000, including imputed interest.

We generally consider our long-term liquidity requirements to consist of those items that are expected to be incurred beyond the next twelve months.

The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding before the Company achieves sustainable revenues and profit from operations. The Company expects to continue to incur additional losses for the foreseeable future, and the Company may need to raise additional debt or equity financing to expand its presence in the marketplace, develop new products, achieve operating efficiencies, and 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. For the three and six months ended June 30, 2023 and 2022, respectively, the Company sustained recurring losses and negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern within twelve months after the date that the financial statements for the period ended June 30, 2023 are issued. However, management is working to address its cash flow challenges, including raising additional capital, managing inventory levels, identifying alternative supply chain resources, and continuing to develop our in-house assembly lines. See also the risk factor entitled "Our audited financial statements include 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" in Item 1A, "Risk Factors" of our 2022 From 10-K.

Financing Obligations

On April 1, 2022, we closed our initial public offering which resulted in approximately $14.8 million of net proceeds, of which approximately $2,464,000 was used to pay down principal and accrued interest on high interest-bearing debt.

As of June 30, 2023, the Company's debt totaled $374,000, comprised of $149,000 outstanding under a COVID-19 Economic Injury Disaster Loan, $200,000 outstanding under vehicle financing arrangements, and an equipment loan for $8,000. In January 2023, the Company repaid a vehicle loan with an interest rate of 11.21% in the amount of $89,360 which included principal, interest, and fees. In May 2023, the Company sold a vehicle including repayment of the related vehicle loan with an interest rate of 5.89% in the amount of $31,568 which included principal and interest. In addition, as of June 30, 2023, the Company had outstanding stockholder loans totaling $825,000.

Stockholder Promissory Notes

Unsecured promissory notes due to stockholders had an outstanding principal balance of $825,000 as of June 30, 2023. The unsecured promissory notes require monthly interest-only payments at 10% per annum and mature at various dates from January 2024 to December 2024. See Note 8 – Stockholder Promissory Notes in Item 1 – Financial Statements of Part I – Financial Information.

Vehicle Financing Arrangements

As of June 30, 2023, the Company has five notes payable to GM Financial for vehicles. In addition, the commercial line secured in April 2022 for $300,000 was renewed in April 2023 and increased to $350,000. This commercial line may be used to finance vehicle purchases and expires in April 2024. The notes are payable in aggregate monthly installments of $4,084, 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 a co-founder of the Company. See Note 7 – Long-Term Debt in Item 1 – Financial Statements of Part I – Financial Information.

Cash Flows

The following table shows a summary of our cash flows for the periods presented:

	Six Months Ended June 30,	
	2023	**2022**
Net cash provided by / (used in) operating activities	$ (3,521,527)	$ (2,727,928)
Net cash provided by / (used in) investing activities	$ 3,714	$ (138,674)
Net cash provided by / (used in) financing activities	$ (87,188)	$ 12,483,840

Cash flows used in operating activities

Our largest source of operating cash is cash collection from sales of our products. Our primary use of cash in operating activities are for increases in inventory purchases, legal and professional services, increased marketing, and research and development. In the last several years, we have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the sales of common stock.

We generated negative cash flows from operating activities of $3.5 million for the six months ended June 30, 2023, compared to negative cash flows of $2.7 million for the corresponding period in 2022. Factors affecting operating cash flows during the periods included:

- For the six months ended June 30, 2023, our loss of $3.5 million was reduced by non-cash transactions including a stock-based settlement of $252,000 and depreciation of $102,000. For the six months ended June 30, 2022, our loss of $4.8 million was adjusted and reduced by non-cash transactions including stock-based compensation of $2.1 million and amortization of debt discount of $1.2 million.

- The increase in accounts receivable was $92,000 and $45,000 for the six months ended June 30, 2023 and 2022, respectively. Sales are generally collected within 30 to 45 days. These changes are mainly due to timing where a few large orders were placed and had open balances at a given date.

- The decrease in accounts payable was $11,000 and $27,000 for the six months ended June 30, 2023 and 2022, respectively. These changes are mainly due to timing of when payments are due.

- Other significant changes include an increase in customer deposits of $157,000 during the six months ended June 30, 2023, representing deposits for custom orders placed in early 2023 for orders that will be shipped and invoiced throughout 2023.

- Cash used for inventory and prepaid inventories increased by $437,000 and $706,000 for the six months ended June 30, 2023 and 2022, respectively. The increases are primarily due to timing of significant purchases and prepayments of inventory to Chinese suppliers. Turnaround time for receiving inventory from foreign sources can take up to 120 days, with prepayments required.

Cash flows used in investing activities

Cash was provided by investing activities in the amount of $4,000 for the six months ended June 30, 2023, and cash was used in investing activities in the amount of $139,000 for the six months ended June 30, 2022. We have had fewer purchases of property and equipment in the six months ended June 30, 2023 than we had in the same period in 2022. We have also received proceeds from selling property and equipment in the six months ended June 30, 2023 that we did not have in the same period in 2022. We anticipate that we will spend up to $379,000 in 2023 as we continue to automate our new assembly line and enhance our quality control measures.

Cash flows provided by financing activities

Cash used in financing activities was $87,000 for the six months ended June 30, 2023 and cash provided by financing activity was $12.5 million for the six months ended June 30, 2022. For the six months ended June 30, 2023, we paid down debt principal of $137,000, which was offset by net cash proceeds of $50,000 from the exercise of warrants. For the six months ended June 30, 2022, we had net proceeds from the issuance of common stock of $14.8 million due to the IPO, paid down debt principal of $1.7 million, and paid lines of credit of $550,000.

Contractual and Other Obligations

Our estimated future obligations consist of long-term operating lease liabilities. As of June 30, 2023, the Company had $3.0 million in long-term operating lease liabilities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The above discussion and analysis of our financial condition and results of operations is based upon our financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosures of contingent assets and liabilities. Our significant accounting policies are described in Note 2 of the accompanying unaudited interim financial statements. Critical accounting policies are those that we consider to be the most important in portraying our financial condition and results of operations and also 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. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the financial statements.

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. As of June 30, 2023 and December 31, 2022, the Company had inventory that consisted of finished assemblies totaling $2,342,945 and $2,722,765, respectively, and raw materials (inventory components, parts, and packaging) totaling $2,624,380 and $1,807,371, 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 June 30, 2023 or December 31, 2022. The Company prepays for inventory purchases from foreign suppliers. Prepaid inventory totaled $160,854 and $141,611 at June 30, 2023 and December 31, 2022, respectively, and included inventory in transit where title had passed to the Company but had not yet been physically received.

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
Tooling and molds	3 - 10 years
QA equipment	3 - 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.

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.

Shipping and Handling Costs

Shipping and handling fees billed to customers are classified on the Statement of Operations as "Sales, net" and totaled $15,365 and $7,230 during the three months ended June 30, 2023 and 2022, respectively, and $24,898 and $11,381 during the six months ended June 30, 2023 and 2022, respectively. Shipping and handling costs for shipping product to customers totaled $48,549 and $43,934 during the three months ended June 30, 2023 and 2022, respectively, and $91,757 and $82,658 during the six months ended June 30, 2023 and 2022, respectively, and are classified 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 $94,078 and $107,058 for the three months ended June 30, 2023 and 2022, respectively, and $171,258 and $112,375 for the six months ended June 30, 2023 and 2022, respectively, and are included in selling, general and administrative expenses in the accompanying Statements of Operations.

Income Taxes

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 June 30, 2023 and December 31, 2022, 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 2023 and beyond.

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 regarding the markets where we operate, any statements of the plans and objectives of our management for future operations, any statements concerning proposed new products or services, any statements regarding expected capital expenditures, 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 and our audited financial statements include a statement that there is a substantial doubt about our ability to continue as a going concern. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.
- Our business and future growth depends on the needs and success of our customers, and we have substantial customer concentration.
- We may not be able to successfully manage our growth.
- We may be negatively impacted by public health epidemics or outbreaks, including the novel coronavirus (“COVID-19”) as well as uncertainty in global economic conditions.
- We may fail to expand our sales and distribution channels and our ability to expend 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.
- Government reviews, inquiries, investigations, and actions could harm our business or reputation.
- We are dependent on third-party manufacturers and suppliers, including suppliers located outside the United States, and our operating results could be adversely affected by changes in the cost and availability of raw materials as well as 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.
- We rely on two warehouse facilities and if any of our facilities becomes inoperable for any reason or if our expansion plans fail, our ability to produce our products could be negatively impacted.
- Lithium-ion battery cells have been observed to catch fire or release smoke and flame, which may have a negative impact on our reputation and business.
- We could face potential product liability claims relating to our products, 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.
- We may not be able to adequately protect our proprietary intellectual property and technology and we may need to defend ourselves against intellectual property infringement claims.

- Quality problems with our products could harm our reputation and erode our competitive position.
- Our ability to raise capital in the future may be limited and our stockholders may be diluted by future securities offerings.
- 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.
- 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.
- Such other factors as discussed in Item 1A "*Risk Factors*" of our 2022 Form 10-K.

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

As a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act), we are not required to provide the information called for by Item 304 of Regulation S-K.

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 June 30, 2023. 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 three ended June 30, 2023, 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 may become, from time to time, involved in routine litigation or subject to disputes or claims related to our business activities. Other than as described below, we are not currently party to any pending legal proceedings that we believe would, individually or in the aggregate, have a material adverse effect on our financial condition, cash flows or results of operations.

On November 22, 2022, Expion360 Inc. received notice of a complaint (the "Complaint") filed against it in Oregon state court by Ravi Sinha. The Complaint alleges, *inter alia*, that Mr. Sinha is entitled to 282,284 shares of the Company's common stock, or in the alternative, $300,000 plus interest, in connection with services he previously rendered the Company as its chief executive officer. On March 21, 2023, the Company entered into a settlement agreement with Mr. Sinha and the matter has been resolved with cash and the issuance of common stock.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described in Item 1A, "Risk Factors" in our 2022 Form 10-K, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock. There have been no material changes to our risk factors since our 2022 Form 10-K.

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

Recent Sales of Unregistered Securities from Registered Securities

In April 2023, holders of 22,606 warrants previously issued by the Company on November 22, 2021 in reliance on the exemption from registration pursuant to Section 4(a)(2) of the Securities Act with an exercise price of $3.32 exercised their warrants on a cashless basis, which resulted in the issuance of an additional 10,151 shares of the Company's common stock. As of the date of this Quarterly Report on Form 10-Q, the Company had 747,830 outstanding warrants.

Use of Proceeds from Registered Securities

On April 5, 2022, we completed our initial public offering of 2,145,000 shares of common stock, including shares issued upon the exercise in full of the underwriters' option to purchase 321,750 additional shares of common stock, at a public offering price of $7.00 per share, resulting in aggregate gross proceeds of $17,267,250 and net proceeds of $14,772,487 after issuance costs of $2,494,763. The offer and sale of these shares were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-262285), which was declared effective by the SEC on March 31, 2022. Paulson Investment Company LLC, Alexander Capital, LP and Revere Securities LLC acted as underwriters for the offering. Shares of our common stock began trading on The Nasdaq Capital Market on April 1, 2022 and, following the sale of all the shares upon the closing of the initial public offering on April 5, 2022, the offer terminated.

No offering expenses were paid directly or indirectly to any of our directors, officers, persons owning 10% or more of any class of our equity securities, or to their associates, or to our affiliates. There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus for our initial public offering dated March 31, 2022 and filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on April 4, 2022 and those disclosed in this Quarterly Report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

		Incorporated by Reference		
Exhibit Number	**Description**	**Form**	**Exhibit**	**Filing Date**
3.1	Articles of Incorporation of the Company, effective as of November 4, 2021	S-1	3.1	3/31/2022
3.2	Bylaws of the Company currently in effect	S-1	3.2	3/31/2022
4.1	Form of the Company's common stock certificate	S-1	4.1	3/31/2022
4.2	Form of Underwriters Warrant	S-1	4.4	3/31/2022
4.3	Form of Senior Secured Note issued to bridge loan investors	S-1	4.5	3/31/2022
4.4	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934	-	-	-
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	-
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Exchange Act, 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.	-	-	-
101.INS	XBRL Instance Document.	-	-	-
101.SCH	XBRL Taxonomy Extension Schema Document.	-	-	-
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	-	-	-
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	-	-	-
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	-	-	-
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	-	-	-
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101).	-	-	-

This certification is deemed not filed for purpose of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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: August 10, 2023	By:/s/ Brian Schaffner Brian Schaffner Chief Executive Officer
Date: August 10, 2023	By:/s/ Greg Aydelott Greg Aydelott Chief Financial Officer

EXHIBIT 31.1

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 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: August 10, 2023

/s/ Brian Schaffner
Brian Schaffner
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Greg Aydelott, 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: August 10, 2023

/s/ Greg Aydelott
Greg Aydelott
Chief Financial Officer
(principal financial officer)

EXHIBIT 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

In connection with the Quarterly Report on Form 10-Q of Expion360 Inc. (the "Company") for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Brian Schaffner, 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: August 10, 2023

/s/ Brian Schaffner
Brian Schaffner
Chief Executive Officer
(principal executive officer)

EXHIBIT 32.2

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 June 30, 2023, as filed with the Securities and Exchange Commission (the “Report”), I, Greg Aydelott, 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: August 10, 2023

/s/ Greg Aydelott
Greg Aydelott
Chief Financial Officer
(principal financial officer)