

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 March 31, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-232426

**Crown Electrokinetics Corp.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**47-5423944**

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

**1110 NE Circle Blvd., Corvallis, Oregon 97330**  
(Address of principal executive offices) (Zip Code)

**(800) 674-3612**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging Growth Company	<input checked="" type="checkbox"/>		

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

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

The number of shares of common stock, \$0.0001 par value per share, outstanding as of May 13, 2022 was 14,584,349.

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock, \$0.0001 par value	CRKN	The Nasdaq Capital Market

CROWN ELECTROKINETICS CORP.

	<u>Page</u>	
<u>PART I - FINANCIAL INFORMATION</u>		
Item 1.	<a href="#"><u>Financial Statements (Unaudited)</u></a>	1
	<a href="#"><u>Condensed Balance Sheets as of March 31, 2022 (Unaudited) and December 31, 2021</u></a>	1
	<a href="#"><u>Condensed Statements of Operations for the Three Months Ended March 31, 2022 and 2021 (Unaudited)</u></a>	2
	<a href="#"><u>Condensed Statements of Stockholders' Equity (Deficit) for the Three Months Ended March 31, 2022 and 2021 (Unaudited)</u></a>	3
	<a href="#"><u>Condensed Statements of Cash Flows for the Three Months Ended March 31, 2022 and 2021 (Unaudited)</u></a>	4
	<a href="#"><u>Notes to the Condensed Financial Statements (Unaudited)</u></a>	5
Item 2.	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	17
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	22
Item 4.	<a href="#"><u>Controls and Procedures</u></a>	23
<u>PART II - OTHER INFORMATION</u>		
Item 1.	<a href="#"><u>Legal Proceedings</u></a>	24
Item 1A.	<a href="#"><u>Risk Factors</u></a>	24
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	24
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>	24
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a>	24
Item 5.	<a href="#"><u>Other Information</u></a>	24
Item 6.	<a href="#"><u>Exhibits</u></a>	24
	<a href="#"><u>Signatures</u></a>	25

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Quarterly Report on Form 10-Q contains forward-looking statements which are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements may be identified by such forward-looking terminology as “may,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the negative of these terms or other comparable terminology. Our forward-looking statements are based on a series of expectations, assumptions, estimates and projections about our company, are not guarantees of future results or performance and involve substantial risks and uncertainty. We may not actually achieve the plans, intentions or expectations disclosed in these forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in these forward-looking statements. Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties.

All of our forward-looking statements are as of the date of this Quarterly Report on Form 10-Q only. In each case, actual results may differ materially from such forward-looking information. We can give no assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this Quarterly Report on Form 10-Q or included in our other public disclosures or our other periodic reports or other documents or filings filed with or furnished to the U.S. Securities and Exchange Commission (the “SEC”) could materially and adversely affect our business, prospects, financial condition and results of operations. Except as required by law, we do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections or other circumstances affecting such forward-looking statements occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. Any public statements or disclosures by us following this Quarterly Report on Form 10-Q that modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements.

**CROWN ELECTROKINETICS CORP.**  
**Condensed Balance Sheets**  
(in thousands, except share and per share amounts)

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,513	\$ 6,130
Prepaid & other current assets	774	687
Total current assets	3,287	6,817
Property and equipment, net	851	895
Intangible assets, net	1,715	1,761
Right of use asset	2,218	-
Other assets	402	179
<b>TOTAL ASSETS</b>	<b>\$ 8,473</b>	<b>\$ 9,652</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 330	\$ 358
Accrued expenses	90	298
Lease liability - current portion	507	-
Notes payable	8	8
Total current liabilities	935	664
Lease liability	1,814	-
<b>Total liabilities</b>	<b>2,749</b>	<b>664</b>
<b>Commitments and Contingencies (Note 10)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$0.0001; 50,000,000 shares authorized, no shares outstanding	-	-
Series A preferred stock, par value \$0.0001; 300 shares authorized, 251 shares outstanding as of March 31, December 31, 2022 and 2021, respectively	-	-
Series B preferred stock, par value \$0.0001; 1,500 shares authorized, 1,443 shares outstanding as of March 31, 2022 and 2021, respectively	-	-
Series C preferred stock, par value \$0.0001; 600,000 shares authorized, 500,756 shares outstanding as of March 31, 2022 and December 31, 2021, respectively	-	-
Common stock, par value \$0.0001; 200,000,000 shares authorized; 14,563,458 and 14,530,126 shares outstanding as of March 31, 2022 and December 31, 2021, respectively	1	1
Additional paid-in capital	83,983	82,677
Accumulated deficit	(78,260)	(73,690)
Total stockholders' equity	5,724	8,988
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 8,473</b>	<b>\$ 9,652</b>

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

**CROWN ELECTROKINETICS CORP.**  
**Condensed Statements of Operations**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**  
(in thousands, except share and per share amounts)

	Three months ended March 31,	
	2022	2021
<b>Operating expenses:</b>		
Research and development	\$ 1,096	\$ 905
Selling, general and administrative	3,471	4,357
<b>Total operating expenses</b>	<b>4,567</b>	<b>5,262</b>
<b>Loss from operations</b>	<b>(4,567)</b>	<b>(5,262)</b>
<b>Other income (expense):</b>		
Other income	-	7
Other expense	-	(1)
Interest expense	(3)	(531)
Loss on exchange of notes payable for common stock and warrants	-	(6)
Gain (loss) on extinguishment of debt	-	(13,805)
Change in fair value of warrant liability	-	(1,023)
Change in fair value of derivative liability	-	(51)
<b>Total other income (expense)</b>	<b>(3)</b>	<b>(15,410)</b>
<b>Loss before income taxes</b>	<b>(4,570)</b>	<b>(20,672)</b>
Income tax expense	-	-
<b>Net loss</b>	<b>\$ (4,570)</b>	<b>\$ (20,672)</b>
<b>Net loss per share, basic and diluted:</b>	<b>\$ (0.29)</b>	<b>\$ (1.70)</b>
<b>Weighted average shares outstanding, basic and diluted:</b>	<b>15,856,316</b>	<b>12,156,503</b>

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



March 31, 2021	251	\$	-	1,443	\$	-	500,756	\$	-	14,856,480	\$	1	\$	73,789	\$	(57,203)	\$	16,587
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*The accompanying notes are an integral part of these condensed financial statements.*

**CROWN ELECTROKINETICS CORP.**  
**Condensed Statements of Cash Flows**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**  
**(in thousands)**

	<b>Three months ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (4,570)	\$ (20,672)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,083	3,463
Issuance of common stock to consultants	-	3
Depreciation and amortization	107	76
(Gain) loss on extinguishment of debt	-	13,805
Loss on exchange of notes payable for common stock and warrants	-	6
Amortization of debt discount	-	458
Change in fair value of warrant liability	-	1,024
Change in fair value of derivative liability	-	51
Amortization of right of use assets	118	-
Loss on disposal of equipment	52	-
Changes in operating assets and liabilities:		
Prepaid and other assets	(87)	(112)
Account payable	(32)	(899)
Accrued expenses	(208)	(145)
Accrued interest	-	72
Lease liability	(15)	-
Net cash used in operating activities	(3,552)	(2,870)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(58)	(77)
Purchase of patents	(7)	(1,506)
Net cash used in investing activities	(65)	(1,583)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of common stock, net of fees	-	19,326
Proceeds from the exercise of common stock warrants	-	180
Proceeds from PPP loan	-	233
Repayment of related party non interest bearing advance	-	(25)
Net cash provided by financing activities	-	19,714
Net (decrease) increase in cash	(3,617)	15,261
Cash — beginning of period	6,130	36
Cash — end of period	\$ 2,513	\$ 15,297
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Issuance of common stock warrants in connection with SLOC	\$ 223	\$ -
Issuance of common stock and preferred stock in connection with conversion of notes	\$ -	\$ 19,222
Repurchase beneficial conversion feature in connection with conversion of notes payable	\$ -	\$ 6,647
Reclassification of warrant liabilities	\$ -	\$ 3,566
Issuance of common stock warrants in connection with note exchange agreements	\$ -	\$ 4,918
Unpaid equipment included in accounts payable	\$ 4	\$ -
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 3	\$ 2
Cash paid income taxes	\$ -	\$ -

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



**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

**Note 1 - Organization and Description of Business Operations**

Crown Electrokinetics Corp. (the “Company”) was incorporated in the State of Delaware on April 20, 2015. Effective October 6, 2017, the Company’s name was changed to Crown Electrokinetics Corp. from 3D Nanocolor Corp. (“3D Nanocolor”).

On January 26, 2021, the Company completed its public offering, and its common stock began trading on the Nasdaq Capital Market (Nasdaq) under the symbol CRKN.

The Company is commercializing technology for smart or dynamic glass. The Company’s electrokinetic glass technology is an advancement on microfluidic technology that was originally developed by HP Inc.

On November 10, 2021, the Board of Directors of the Company approved a change in its fiscal year end from March 31 to December 31 which was effective January 1, 2022.

**Note 2 - Liquidity and Financial Condition**

The Company has incurred substantial operating losses since its inception and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. As reflected in the condensed financial statements, the Company had an accumulated deficit of approximately \$78.3 million and working capital of approximately \$2.4 million at March 31, 2022, a net loss of approximately \$4.6 million, approximately \$3.6 million of net cash used in operating activities for the three months ended March 31, 2022. The Company expects to continue to incur ongoing administrative and other expenses, including public company expenses.

On March 23, 2022, the Company entered into an Irrevocable \$10 million Standby Letter of Credit (“SLOC”). The SLOC accrues interest at a rate of 12% per annum and matures 2 years from the issuance date of the SLOC. Interest is payable quarterly. In connection with the SLOC, the Company issued a warrant for 200,000 shares of common stock with an exercise price of \$2.00. Additionally, the Company will issue 50,000 shares of its restricted common stock with each cash draw of \$1.0 million. Drawdowns are capped at a maximum of \$5 million in the first six months. The Company intends to sign and drawdown on the available funds as necessary in 2022 and 2023.

The Company entered into a Sales Agreement with A.G.P./Alliance Global Partners (the “Sales Agents”) dated March 30, 2022 (the “Sales Agreement”), pursuant to which the Company may, from time to time, sell up to \$5 million in shares (the “Placement Shares”) of the Company’s common stock through the Sales Agents, acting as the Company’s sales agent and/or principal, in a continuous at-the-market offering (the “ATM Offering”). The Company will pay the Sales Agents a commission of up to 3.0% of the aggregate gross proceeds the Company receives from all sales of the Company’s common stock under the Sales Agreement. The Placement Shares will be offered and sold pursuant to the Company’s shelf registration statement on Form S-3 (Registration No. 333- 262122) and the related base prospectus included in the registration statement, as supplemented by the prospectus supplement dated March 30, 2022. As of March 31, 2022 the Company did not receive any proceeds from the ATM Offering. Subsequent to March 31, 2022, and as of the date of this filing, the Company received net proceeds on sales of 20,891 shares of common stock under the Sales Agreement of approximately \$27,216 (after deducting \$816 in commissions and expenses) at a weighted average price of \$1.30.

Although it is difficult to predict the Company’s liquidity requirements as of March 31, 2022, based upon the Company’s current operating plan, cash on hand, SLOC funding, and ATM facility, management believes that the Company will have sufficient cash to meet its projected operating requirements for at least the next 12 months following the issuance of these condensed financial statements.

**Risks and Uncertainties**

Management is constantly monitoring the impact of the COVID-19 pandemic on operations and financials of the Company. To date the main impact has been the delayed evaluation of potential manufacturing partnerships. These delays have been caused by Covid lockdowns i) restricting site tour opportunities by potential partners and ii) driving strong demand for potential partners existing product lines, limiting their capacity to assess new partnership opportunities. The Company has concluded that while it is reasonably possible that the virus could still have a negative effect on the Company’s financial position, the specific impact is not readily determinable as of the date of these condensed financial statements.

The Company is currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability due to the ongoing military conflict between Russia and Ukraine. The Company’s financial condition and results of operations may be materially adversely affected by any negative impact on the global economy and capital markets resulting from the conflict in Ukraine or any other geopolitical tensions.

The condensed financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

**Note 3 - Significant Accounting Policies**

***Basis of Presentation***

The Company's condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include all adjustments necessary for the fair presentation of the Company's financial position for the periods presented. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results for the full year or the results for any future periods. These condensed financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended December 31, 2021 included in the Company's Form 10-KT filed with the Securities and Exchange Commission (the "SEC") on March 30, 2022.

***Use of Estimates***

The preparation of condensed financial statements in conformity with 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 condensed financial statements and the reported amounts of expenses during the reporting period. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Actual results may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations will be affected.

***Significant Accounting Policies:***

For a detailed discussion about the Company's significant accounting policies, see the Company's December 31, 2021 financial statements included in its 2021 Annual Report.

**Leases**

The Company accounts for its leases under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the condensed consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term.

In calculating the right of use asset and lease liability, the Company elects to combine lease and non-lease components as permitted under ASC 842. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

**Warrants**

The Company accounts for its warrants related to the SLOC in accordance with ASC 815-40, *Contracts in Entity's Own Equity*. The warrants to purchase the Company's common stock should be classified within stockholders' equity and the warrants are indexed to the Company's own stock under ASC 815-40. As such, the warrants meet the scope exception in ASC 815-10-15-74(a) to derivative accounting and; therefore, the warrants should be classified in stockholders' equity. The Company will use a Black-Scholes model to value the warrants at issuance.

Under the guidance of ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, the Company concluded the warrants should be recorded as a deferred asset. At issuance and as of March 31, 2022, since no loan amounts were drawn down, the SLOC warrant is recorded as a deferred asset at fair value and will be amortized over the life of the SLOC. Upon a draw down, the remaining balance of the deferred asset would be reclassified to debt discount and amortized under the effective interest method over the one-year term of the loan.

***Net Loss per Share***

ASC 260, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share at March 31, 2022 and 2021 are as follows:

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
	<b>(Unaudited)</b>	
Series A preferred stock	188,311	188,311
Series B preferred stock	2,019,038	2,019,038
Series C preferred stock	560,757	560,757
Warrants to purchase common stock (excluding penny warrants)	4,725,177	3,883,083
Options to purchase common stock	10,567,099	10,861,940
Unvested restricted stock awards	-	777,778
Unvested restricted stock units	2,261,905	1,061,905
	<b>20,322,287</b>	<b>19,352,812</b>

***Emerging Growth Company***

The Company is considered to be an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, as amended (JOBS Act). The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Securities and Exchange Act of 1934.

***Recent Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842*, which amends ASU 2016-02 to provide entities an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 842. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. The standard will be effective for non-public entities for fiscal years beginning after December 15, 2022 and interim periods beginning after December 15, 2023. The Company adopted this standard on January 1, 2022, and the adoption did not have a material impact on the Company’s financial statements or disclosures.

In August 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, and it also simplifies the diluted earnings per share calculation in certain areas. This ASU is effective for annual reporting periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. This update permits the use of either the modified retrospective or fully retrospective method of transition. On January 1, 2022, the adoption of ASU 2020-06 did not have a material impact on the Company’s condensed financial statements or disclosures.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260)*, *Debt-Modifications and Extinguishments (Subtopic 470-50)*, *Compensation-Stock Compensation (Topic 718)*, and *Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses: (1) how an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; (2) how an entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; and (3) how an entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange. This ASU will be effective for all entities for fiscal years beginning after December 15, 2021. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. Early adoption is permitted, including adoption in an interim period. On January 1, 2022, the adoption of ASU 2021-04 did not have a material impact on the Company's condensed financial statements or disclosures.

**Note 4 - Property & Equipment, Net**

Property and equipment, net, consists of the following (in thousands):

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	<b>(Unaudited)</b>	
Equipment	\$ 1,018	\$ 1,013
Computers	52	37
Leasehold improvements	70	28
Total	1,140	1,078
Less accumulated depreciation and amortization	(289)	(183)
Property and equipment, net	\$ 851	\$ 895

Depreciation expense for the three months ended March 31, 2022 and 2021 was \$54,000 and \$16,000, respectively.

**Note 5 - Intangible Assets, Net**

IBM Patents

On July 23, 2021, the Company entered into a Patent Assignment Agreement with International Business Machines Corporation ("IBM") to acquire an ownership interest in assigned patents. As consideration for the patents, the Company paid \$264,000 (including legal fees of approximately \$38,000).

Intellectual Property

On January 31, 2016, the Company, entered into an IP agreement with HP to acquire a research license to determine the feasibility of incorporating HP's electro-kinetic display technology in the Company's products. Under the terms of the agreement, the license is to be used for research purposes only, has a purchase price of \$200,000 for the technology and a two-year closing date. On April 12, 2016 the Company and HP entered into the first amendment to the agreement, which reduced the purchase price of the technology to \$175,000. The sales agreement entered into with HP concurrently with the first amendment to the agreement allocated \$25,000 of the \$200,000 purchase price to acquire equipment to be used in the research. On May 1, 2017, the Company and HP entered into the second amendment to the agreement which increased the purchase price for the technology to \$375,000 and extended the closing date to January 31, 2020. On March 10, 2019, the Company and HP entered into the third amendment to the agreement, which extended the closing date to January 31, 2021, enumerated certain intellectual property owned by HP that is not subject to the exclusive license granted to the Company and revised the schedule of fees payable by the Company to HP. Under the terms of the fourth amendment with HP (see details below), \$75,000 will be included in the purchase price for the option to purchase assignable patents, which was paid on February 9, 2021.

Under the guidance of ASC 350, *Intangibles - Goodwill and Other Intangibles*, the Company recorded the research license at the cost to acquire the license. The Company has paid \$375,000 for the transfer of the technology. The research license will be amortized over a 10-year useful life.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

*HP Patents*

On February 4, 2021, the Company entered into the fourth amendment to the IP agreement with HP. Under the terms of the amendment, the parties agreed to amend the list of patent and patent applications, which includes two additional patents that are assignable to the Company by HP. The Company exercised the option to purchase the assignable patents and paid HP \$1.55 million dollars on February 9, 2021. Upon assignment of the patents, the Company will pay HP a royalty fee based on the cumulative gross revenue received by the Company from the patents as follows:

1. Prior to December 31, 2029:
  - Less than \$70,000,000, royalty rate of 0.00%
  - \$70,000,000 - \$500,000,000, royalty rate of 1.25%
  - \$500,000,000 and beyond, royalty rate of 1.00%
2. After January 1, 2030 and onward, royalty rate of 0.00%

Under the terms of the amendment, HP waived any interest that would have been accrued on the open payable of \$75,000 which was due from the Company related to the license agreement dated January 31, 2016.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

Intangible assets, net, consists of the following (in thousands):

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	<b>(Unaudited)</b>	
Patents	\$ 1,747	\$ 1,739
Research license	375	375
Total	2,122	2,114
Accumulated amortization	(407)	(353)
Intangible assets, net	<u>\$ 1,715</u>	<u>\$ 1,761</u>

The following table represents the total estimated amortization of intangible assets for the five succeeding years and thereafter as of March 31, 2022 (in thousands):

	<b>Estimated Amortization Expense</b>
2022	\$ 162
2023	215
2024	215
2025	215
2026 and thereafter	908
Total	<u>\$ 1,715</u>

For the three months ended March 31, 2022 and 2021, amortization expense was approximately \$53,000 and \$60,000, respectively.

**Note 6 - Accrued Expenses**

As of March 31, 2022 and December 31, 2021, the Company's accrued expenses consisted of the following (in thousands):

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	<b>(Unaudited)</b>	
General liability insurance	\$ 90	\$ 234
Professional fees	-	7
Rent	-	57
Total	<u>\$ 90</u>	<u>\$ 298</u>

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

**Note 7 - Stockholders' Deficit**

***Preferred Stock***

As of March 31, 2022 and December 31, 2021, there were 50,000,000 authorized shares of the Company's preferred stock, par value \$0.0001.

Series A Preferred Stock

As of March 31, 2022 and December 31, 2021, the Company had 251 shares of its Series A preferred stock issued and outstanding.

Series B Preferred Stock

As of March 31, 2022 and December 31, 2021, the Company had 1,443 shares of its Series B preferred stock issued and outstanding.

Series C Preferred Stock

As of March 31, 2022 and December 31, 2021, the Company had 500,756 shares of its Series C preferred stock issued and outstanding.

***Common Stock***

Restricted Stock

During the three months ended March 31, 2022, the Company issued 33,332 shares of common stock in connection with vested restricted stock units.

**Note 8 - Stock Options, Restricted Stock Units and Warrants:**

On December 16, 2020, the Company adopted its 2020 Long-Term Incentive Plan (the "2020 Plan"). Under the 2020 Plan, there are 5,333,333 shares of the Company's common stock available for issuance and the 2020 Plan has a term of 10 years. The available shares in the 2020 Plan will automatically increase on the first trading day in January of each calendar year during the term of this Plan, commencing with January 2021, by an amount equal to the lesser of (i) five percent (5%) of the total number of shares of common stock issued and outstanding on December 31 of the immediately preceding calendar year, (ii) 1,000,000 shares of common stock or (iii) such number of shares of common stock as may be established by the Company's Board of Directors.

The Company grants equity-based compensation under its 2020 Plan and its 2016 Equity Incentive Plan (the "2016 Plan"). The 2020 Plan and 2016 Plan allows the Company to grant incentive and nonqualified stock options, and shares of restricted stock to its employees, directors and consultants. On June 14, 2019, the Board of Directors of the Company approved increasing the number of shares allocated to the Company's 2016 Equity Incentive Plan from 5,500,000 to 7,333,333.

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

Under the 2016 Plan and the 2020 Plan, upon the exercise of stock options and issuance of fully vested restricted common stock, shares of common stock may be withheld to satisfy tax withholdings. The Company intends to net settle certain employee options to ensure adequate authorized shares under the Incentive Plan.

**Stock-based compensation:**

The Company recognized total expenses for stock-based compensation during the three months ended March 31, 2022 and 2021, which are included in the accompanying statements of operations, as follows (in thousands):

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Research and development expenses	\$ 55	\$ 490
Selling, general and administrative expenses	1,028	2,976
<b>Total stock-based compensation</b>	<b>\$ 1,083</b>	<b>\$ 3,466</b>

**Stock Options:**

The Company provides stock-based compensation to employees, directors and consultants under both the 2016 and 2020 Plans. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Company historically has been a private company and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The risk-free interest rate is determined by referencing the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

A summary of activity under the 2016 and 2020 Plans for the three months ended March 31, 2022 is as follows:

	<b>Shares Underlying Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2021	11,135,432	\$ 2.85	7.6	\$ 13,031
Canceled	(568,332)	\$ 3.39	-	
Outstanding at March 31, 2022	<u>10,567,100</u>	<u>\$ 2.82</u>	<u>7.2</u>	<u>1,903</u>
Exercisable at March 31, 2022	<u>9,917,516</u>	<u>\$ 2.76</u>	<u>7.1</u>	<u>\$ 1,903</u>



**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

During the three months ended March 31, 2022, the Company cancelled 568,332 stock options with a weighted average exercise price of \$3.39. Of these stock option cancellations, 33,332 were related to a swap for restricted stock units (see restricted stock units below) and 535,000 were cancelled in connection with employee departures.

**Restricted stock units:**

A summary of the Company's restricted stock activity during the three months ended March 31, 2022 is as follows:

During the three months ended March 31, 2022, 33,332 restricted stock units ("RSUs) were swapped for 33,332 cancelled stock options. The cancellation of the stock options and the issuance of the RSUs were accounted for as a modification of the equity awards and during the three months ended March 31, 2022, the Company recognized incremental stock-based compensation of \$0.1 million.

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at March 31, 2021	1,061,905	\$ 4.50
Granted	1,200,000	\$ 1.33
Vested	(322,222)	\$ 1.24
Unvested at December 31, 2021	1,939,683	\$ 3.08
Granted	33,332	\$ 3.25
Vested	(1,195,237)	\$ 4.20
Unvested at March 31, 2022	<u>777,778</u>	<u>\$ 1.37</u>

**Warrants:**

In connection with the SLOC, the Company issued a warrant for 200,000 shares of common stock with an exercise price of \$2.00, and a total fair value of approximately \$0.2 million. This amount is included in the condensed Balance Sheet as deferred debt issuance costs included in other assets. A summary of the Company's warrant (excluding penny warrants) activity during the three months ended March 31, 2022 is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021	4,525,177	\$ 2.65	4.0	\$ 7,088
Issued	200,000	\$ 2.00	5.0	
Outstanding at March 31, 2022	<u>4,725,177</u>	<u>\$ 2.62</u>	<u>3.8</u>	<u>\$ 2,134</u>
Exercisable at March 31, 2022	<u>1,862,661</u>	<u>\$ 1.15</u>	<u>3.1</u>	<u>\$ 2,134</u>

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

The Company estimated the fair value of the warrants using the Black-Scholes pricing model as follows:

	<b>Three months ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Expected price volatility	103.0%	50%-103%
Risk free interest rate	2.2%	.42%-.81%
Expected term (years)	5.0	5.0

**Note 9 - Commitments and Contingencies**

*Leases*

Oregon State University

On March 8, 2016, the Company entered into a lease agreement with Oregon State University, to lease office and laboratory space located at HP Campus Building 11, 1110 NE Circle Blvd, Corvallis, Oregon, for approximately \$400 monthly. On July 1, 2016, the Company entered into the first amendment to the lease agreement which increased the monthly lease expense to approximately \$1,200. On October 1, 2017, the Company entered into a sublease agreement, which provides for additional office space and the monthly lease payment increased to approximately \$1,800. The lease expired on June 30, 2018 and the Company extended the lease through June 30, 2019. The monthly lease payment increased to approximately \$4,500 for the months ended June 30 2018 through November 30, 2018, and increased to approximately \$7,550 for the months ended December 31, 2018 through June 30, 2019.

On July 1, 2019, the Company entered into the fourth amendment to its lease with Oregon State University, which extends the lease expiration date to June 30, 2022. Beginning on July 1, 2020, and each July 1 thereafter, the monthly Operating Expense Reimbursement, as defined will be increased by no more than three percent.

On July 1, 2020, the Company entered into the fifth amendment to its lease with Oregon State University which adjusts the Operating Expense Reimbursement payment due dates from monthly to quarterly, with the payments due in advance on the first of July, October, January and April. Effective July 1, 2020, the quarterly operating expense will be \$23,097 which includes Service fees of \$11,979 and Facility Tooling fees of \$11,118.

On July 1, 2021, the Company entered into the sixth amendment to its lease with Oregon State University which adjusts the Operating Expense Reimbursement to a quarterly payment of \$23,805. The quarterly Operating Expense Reimbursement payment includes Service fees of \$12,337 and Facility Tooling fees of \$11,468.

On September 1, 2021, the Company entered into the seventh amendment to its lease with Oregon State University which expands the lease to now include approximately 703 square feet of lab space, 576 square feet of cubicle space, 1096 square feet of Highbay lab space, and 376 square feet of High bay storage space in a building commonly known as Building 11. Effective September 1, 2021, the quarterly operating expense will be \$31,647 covering all utility and facility tooling costs. The sublease is extended until June 30, 2025.

On January 24, 2022, the Company entered into the eighth amendment to its lease with Oregon State University which expands the lease to now include approximately 703 square feet of lab space, 768 square feet of cubicle space, 2,088 square feet of Highbay lab space, and 376 square feet of High bay storage space in a building commonly known as Building 11. Effective January 24, 2022, the quarterly operating expense will be \$44,252 covering all utility and facility tooling costs. The sublease expires June 30, 2025.

Hudson 11601 Wilshire, LLC

On March 4, 2021, the Company entered into a lease agreement with Hudson 11601 Wilshire, LLC, to lease 3,500 square feet of office space located in Los Angeles, California. The lease term is 39 months and expires on June 30, 2024. The monthly lease expense is as follows:

- Months 1-12            - \$18,375
- Months 13-24        - \$19,018
- Months 25-36        - \$19,683
- Months 37-39        - \$20,372

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

The Company paid a security deposit totaling \$20,373 at the lease inception date.

HP Inc.

On May 4, 2021, the Company entered into a lease agreement with HP Inc. to lease office and lab space located in Corvallis, Oregon. The lease term is 5 years, and the lease commencement date is April 1, 2021. The monthly lease expense is \$7,388 and increases 3% on each anniversary of the lease commencement date. The Company will pay a security deposit totaling \$8,315. The Company has the option to extend the lease for an additional 5 years. On January 26, 2022, the Company entered into the first amendment to its lease with HP Inc., which amends the lease commencement date to January 26, 2022 and the lease expiration date to January 31, 2027.

Pacific N.W. Properties, LLC

On October 5, 2021, the Company entered into a lease agreement with Pacific N.W. Properties, LLC to lease 26,963 square feet of warehouse, manufacturing, production and office space located in Salem Oregon. The commencement date of the lease is October 1, 2021, the lease term is 62 months and expires on November 30, 2026.

On December 9, 2021, the Company entered into the first amendment to its lease agreement with Pacific N.W. Properties, LLC. The lease amendment revises the lease commencement date to December 9, 2021 and the lease expiration date to February 28, 2027. The revised monthly lease expense is as follows:

- Months 1-2                    - \$15,357
- Months 3-12                - \$21,500
- Months 13-24              - \$22,145
- Months 25-36              - \$22,809
- Months 37-48              - \$23,494
- Months 49-60              - \$24,198
- Months 61-62              - \$24,924

As of March 31, 2022, the Company had operating lease liabilities of approximately \$2.3 million and right-of-use assets of approximately \$2.2 million, which are included in the condensed balance sheet.

The components of lease expense were as follows:

	<b>Three months ended March 31, 2022</b>
Operating leases:	
Operating lease cost	\$ 190
Variable lease cost	19
Operating lease expense	\$ 209

Supplemental cash flow information related to leases were as follows:

	<b>Three months ended March 31, 2022</b>
Operating cash flows - operating leases	\$ 153
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 2,336
Weighted-average remaining lease term – operating leases (in years)	3.9
Weighted-average discount rate – operating leases	12.0%

**CROWN ELECTROKINETICS, CORP.**  
**Notes to Condensed Financial Statements**  
**Three Months Ended March 31, 2022 and 2021**  
**(Unaudited)**

As of March 31, 2022, future minimum payments are as follows (in thousands):

	<b>Operating Leases</b>
Nine months ended December 31, 2022	\$ 566
Year ended December 31, 2023	776
Year ended December 31, 2024	678
Year ended December 31, 2025	475
Year ended December 31, 2026	390
Year ended December 31, 2027	67
Total	2,952
Less present value discount	(631)
Operating lease liabilities	\$ 2,321

During the three months ended March 31, 2022 and 2021, the Company recognized rent expense of approximately \$0.2 million and \$0.03 million, respectively.

***Litigation***

From time to time, the Company is also involved in various other claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company does not believe that the ultimate resolution of these actions will have a material adverse effect on its financial position, results of operations, liquidity or capital resources.

Future litigation may be necessary to defend ourselves and our partners by determining the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

**Note 10 - Subsequent Events**

The Company has evaluated all subsequent events through the date of filing of this Quarterly Report on Form 10-Q with the SEC, to ensure that this filing includes appropriate disclosure of events both recognized in the condensed financial statements as of March 31, 2022, and events which occurred after March 31, 2022, but which were not recognized in the condensed financial statements.

Subsequent to March 31, 2022, in connection with the Company's ATM Offering (see Note 2), the Company received gross proceeds of approximately \$27,216 from the sale of 20,891 shares of common stock at a weighted average price of \$1.30

## 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 condensed financial statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included elsewhere in this report.*

As an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, we can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are electing to delay our adoption of such new or revised accounting standards. As a result of this election, our condensed financial statements may not be comparable to the condensed financial statements of other public companies.

### **Management's plans and basis of presentation:**

The Company was incorporated in the State of Delaware on April 20, 2015. Effective January 14, 2016, the Company's name was changed to 3D Nanocolor Corp. ("3D Nanocolor") from 2D Nanocolor Corp. Subsequently, effective October 6, 2017, the Company's name was changed to Crown Electrokinetics Corp. from 3D Nanocolor Corp.

The Company is commercializing technology for smart or dynamic glass with its first product being the Smart Window Insert by DynamicTint. The Company's electrokinetic glass technology is an advancement on microfluidic technology that was originally developed by Hewlett-Packard Company.

On January 26, 2021, the Company completed its public offering, and its common stock began trading on the Nasdaq Capital Market (Nasdaq) under the symbol CRKN.

On January 22, 2021, the Company's Board of Directors authorized a reverse stock split at an exchange ratio of one (1) share of common stock for every three (3) shares of common stock. The reverse stock split was effective on January 25, 2021, such that every three (3) shares of common stock have been automatically converted into one (1) share of common stock. The Company will not issue fractional certificates for post-reverse split shares in connection with the reverse stock split. Rather, all shares of common stock that are held by a stockholder will be aggregated and each stockholder shall be entitled to receive the number of whole shares resulting from the combination of the shares so aggregated. Any fractions resulting from the reverse stock split computation shall be rounded up to the next whole share.

On January 26, 2021, the Company entered into an underwriting agreement relating to the Company's public offering of its common stock, par value \$0.0001 per share. The Company agreed to sell 4,150,000 shares of its common stock to the underwriters, at a purchase price per share of \$4.14 (the offering price to the public of \$4.50 per share minus the underwriters' discount), pursuant to the Company's registration statement on Form S-1 (File No. 333-249833), as amended, under the Securities Act of 1933, as amended, and the related registration statement on Form S-1 (File No. 333-252418) that was filed by the Company under Rule 462(b) under the Securities Act. The Company has also granted the underwriters a 30-day option to purchase up to 622,500 additional shares of common stock to cover over-allotments. On January 28, 2021, the Company received net proceeds from its public offering of approximately \$19.3 million, net of underwriter fees and commissions of approximately \$1.7 million, and offering costs of \$0.4 million.

Additionally, there were 251 shares of our Series A Preferred Stock issued and outstanding, 1,443 shares of our Series B Preferred Stock issued and 500,756 shares of our Series C Preferred Stock issued, with one shareholder of record of each such series of our preferred stock.

Crown's Research & Development Operation currently occupies 1,700 square feet of space, located on the HP Inc. campus in Corvallis, Oregon in the Advanced Technology and Manufacturing Institute (ATAMI). ATAMI is an academic-industrial research center and business incubator designed to provide an advanced materials development environment to private sector partner tenants performing research and development. The facility includes access to shared state-of-the-art tooling capabilities. ATAMI has grown to 80,000 square feet since its inception in 2004.

On March 4, 2021, the Company entered into a standard office lease with Hudson 11601 Wilshire, LLC, to lease 3,500 square feet of office space located at 11601 Wilshire Boulevard, Los Angeles, California 90025. The base monthly rent for the first year of the lease is \$18,375 per month, which increases to \$19,018.13 per month for the second year, \$19,683.76 for the third year and \$20,372.69 for the final three months of the lease. The lease expires on June 30, 2024. We believe that our facilities are adequate to meet our needs for the immediate future and that, should it be needed, we will be able to secure additional space to accommodate the expansion of our operations. This office space, along with ATAMI, offers Crown all the space requirements it needs for the foreseeable future.

On October 5, 2021, the Company entered into a lease agreement with Pacific N.W. Properties, LLC to lease 26,963 square feet of warehouse, manufacturing, production and office space located in Salem Oregon. The commencement date of the lease is October 1, 2021, the lease term is 62 months and expires on November 30, 2026.

On March 25, 2022, Crown executed a Master Supply Agreement (the “BDN MSA”) with Brandywine Operating Partnerships L.P. to install its Smart Window Inserts powered by DynamicTint™ in Brandywine office buildings. The BDN MSA provides the master terms and conditions under which purchase orders will be executed for Crown to supply units to retrofit windows at certain locations.

On December 27, 2021, Crown executed a Master Supply Agreement (the “HPP MSA”) with Hudson Pacific Properties L.P. for the installation of Crown’s energy saving Smart Window Inserts in several office properties across its West Coast portfolio. The HPP MSA provides the master terms and conditions under which purchase orders will be executed for Crown to supply units to retrofit windows at certain locations.

Prior to this, on September 27, 2021, Crown had entered into a Master Supply Agreement with MetroSpaces Inc., Crown’s first commercial customer, install its Smart Window Inserts in MetroSpaces’ 70,000 square-foot Houston, Texas office building.

In the future, Crown and each of these customers may enter into multiple specific transactions by executing purchase orders for additional buildings.

Additionally, discussions with multiple other building owners to buy Crown Smart Window Inserts are progressing as the regulatory and consumer pressure to reduce the level of energy consumption and carbon emissions, continues to build.

**Results of Operations for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 (in thousands):**

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Research and development	\$ 1,096	\$ 905
Selling, general and administrative	3,471	4,357
Other income (expense)	(3)	(15,410)
<b>Net loss</b>	<b>\$ (4,570)</b>	<b>\$ (20,672)</b>

***Research and Development***

Research and development expenses were \$1.1 million for the three months ended March 31, 2022 compared to \$0.9 million for the three months ended March 31, 2021. The increase of \$0.2 million is primarily related to additional salaries and benefits.

### *Selling, General and Administrative*

Selling, general and administrative (“SG&A”) expenses were \$3.4 million and \$4.4 million for the three months ended March 31, 2022 and 2021, respectively. The \$1.0 million decrease in SG&A expenses is primarily due to decrease in stock-based compensation of \$1.8 million, offset by an increase of salaries of \$0.4 million, professional fees of \$0.2 million, rent expense of \$0.2 million, loss on disposal of equipment of \$0.1 million and other SG&A expenses.

### *Other (Income) Expense*

Other (income) expense was immaterial for the three months ended March 31, 2022. Other (income) expense for the three months ended March 31, 2021 was \$15.4 million loss, which primarily consisted of a loss on extinguishment of debt in the amount of \$13.8 million, a loss due to the change in fair value of warrant liability of \$1.0 million and a loss due to a change in fair value of derivative liability of \$0.1 million.

### **Liquidity**

	<b>Three Months Ended March 31, 2022</b>	<b>Three Months Ended March 31, 2021</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>\$ 6,130</b>	<b>\$ 36</b>
Net cash used in operating activities	(3,552)	(2,870)
Net cash used in investing activities	(65)	(1,583)
Net cash provided by financing activities		19,714
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 2,513</b>	<b>\$ 15,297</b>

The Company had an accumulated deficit of approximately \$78.2 million, and a net loss of \$4.6 million, and used approximately \$3.6 million in net cash in operating activities for the three months ended March 31, 2022. The Company expects to continue to incur ongoing administrative and other expenses, including public company expenses.

On March 23, 2022, the Company entered into an Irrevocable \$10 million Standby Letter of Credit (“SLOC”). The SLOC accrues interest at a rate of 12% per annum and matures 2 years from the issuance date of the SLOC. Interest is payable quarterly. In connection with the SLOC, the Company issued a warrant for 200,000 shares of common stock with an exercise price of \$2. Additionally, the Company will issue 50,000 shares of its restricted common stock with each cash draw of \$1.0 million. Drawdowns are capped at a maximum of \$5 million in the first six months. The Company intends to sign and drawdown on the available funds as necessary in 2022 and 2023.

The Company entered into a Sales Agreement with A.G.P./Alliance Global Partners (the “Sales Agents”) dated March 30, 2022 (the “Sales Agreement”), pursuant to which the Company may, from time to time, sell up to \$5 million in shares (the “Placement Shares”) of the Company’s common stock through the Sales Agents, acting as the Company’s sales agent and/or principal, in a continuous at-the-market offering (the “ATM Offering”). The Company will pay the Sales Agents a commission of up to 3.0% of the aggregate gross proceeds the Company receives from all sales of the Company’s common stock under the Sales Agreement. The Placement Shares will be offered and sold pursuant to the Company’s shelf registration statement on Form S-3 (Registration No. 333- 262122) and the related base prospectus included in the registration statement, as supplemented by the prospectus supplement dated March 30, 2022. As of March 31, 2022 the Company did not receive any proceeds from the ATM Offering. Subsequent to March 31, 2022, and as of the date of this filing, the Company received net proceeds on sales of 20,891 shares of common stock under the Sales Agreement of approximately \$27,216 (after deducting \$816 in commissions and expenses) at a weighted average price of \$1.30.

Although it is difficult to predict the Company’s liquidity requirements as of December 31, 2021, based upon the Company’s current operating plan, cash on hand, SLOC funding, and ATM facility, management believes that the Company will have sufficient cash to meet its projected operating requirements for at least the next 12 months following the issuance of these condensed financial statements.

## **Cash Flows**

### ***Operating Activities***

For the three months ended March 31, 2022, net cash used in operating activities was \$3.6 million, which primarily consisted of our net loss of \$4.6 million, adjusted for non-cash expenses of \$1.4 million which primarily consisted of stock-based compensation expenses totaling \$1.0 million, and depreciation and amortization of \$0.1 million. The net change in operating assets and liabilities was \$0.3 million, primarily consisting of an increase in prepaid and other assets.

For the three months ended March 31, 2021, net cash used in operating activities was \$2.9 million, which primarily consisted of our net loss of \$20.7 million, adjusted for non-cash expenses of \$19.0 million which primarily consisted of stock-based compensation expenses totaling \$3.5 million, and depreciation and amortization of \$0.1 million, offset by gain on extinguishment of debt of \$14.0 million, a change in warrant liability of \$1.0 million, amortization of debt discount of \$0.5 million, and change in fair value of derivative liability of \$0.1 million. The net change in operating assets and liabilities was \$1.0 million.

### ***Investing Activities***

For the three months ended March 31, 2022, net cash used in investing activities was approximately \$0.1 million

For the three months ended March 31, 2021, net cash used in investing activities was approximately \$1.6 million, consisting of \$1.5 million related to the purchase of for the purchase of the HP patents.

### ***Financing Activities***

For the three months ended March 31, 2021, net cash provided by financing activities was \$19.7 million, related to the proceeds of issuance of common stock.

### ***Off-balance sheet arrangements***

We did not have any off-balance sheet arrangements during the periods presented, and we do not currently have any off-balance sheet arrangements, as defined in the SEC rules and regulations.

### ***Revenue Recognition***

We adopted the new revenue standard, ASC 606, on March 31, 2019 using the full retrospective approach. The adoption did not have an effect on 2020 or 2019 revenue recognition or a cumulative effect on opening equity, as the timing and measurement of revenue recognition is materially the same as under ASC 605. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation



For contracts where the period between when we transfer a promised good or service to the customer and when the customer pays is one year or less, we have elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component.

Our performance obligation is to provide a development service that enhances an asset that the customer controls. We receive upfront payments in advance of providing services and payment upon reaching milestones.

We are not able to reasonably measure the outcome of our performance obligations that are satisfied over time because we are in the early stages of the contracts. Therefore, the amount of performance that will be required in our contracts cannot be reliably estimated and we recognize revenue up to the amount of costs incurred.

No revenue was recognized by the Company during the three months ended March 31, 2022 and 2021.

#### ***Stock-based compensation***

We measure and recognize compensation expense for all options based on the estimated fair value of the award on the grant date. We use the Black-Scholes option-pricing model to estimate the fair value of option awards. The fair value is recognized as expense on a straight-line basis over the requisite service period. We account for forfeitures as they occur. We recognize expense for awards where vesting is subject to a market or performance condition based on the derived service period. Expense for awards with performance conditions would be estimated and adjusted on a quarterly basis based upon our assessment of the probability that the performance condition will be met.

The determination of the grant date fair value of options using an option pricing model is affected principally by our estimated fair value of shares of our common stock and requires management to make a number of other assumptions, including the expected life of the option, the volatility of the underlying shares, the risk-free interest rate and expected dividends. The assumptions used in our Black-Scholes option-pricing model represent management's best estimates at the time of measurement. These estimates are complex, involve a number of variables, uncertainties and assumptions and the application of management's judgment, as they are inherently subjective. If any assumptions change, our stock-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- **Expected Term.** The expected term of options represents the period that our stock-based awards are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term. The simplified method was used because we do not have sufficient historical exercise data to provide a reasonable basis for an estimate of expected term.
- **Expected Volatility.** We historically have lacked company-specific historical and implied volatility information. Therefore, we estimate our expected stock volatility based on the historical volatility of a publicly traded set of peer companies and expect to continue to do so until such time as we have adequate historical data regarding the volatility of our own traded stock price.
- **Risk-Free Interest Rate.** We base the risk-free interest rate on the implied yield available on U. S. Treasury zero-coupon issues with an equivalent remaining term.
- **Expected Dividend Yield.** We have never declared or paid any cash dividends on our common shares and do not plan to pay cash dividends in the foreseeable future, and, therefore, we use an expected dividend yield of zero in our valuation models.

We account for forfeited awards as they occur.

### ***Fair Value of Common Stock***

Historically, the fair values of the shares of common stock underlying our options were estimated on each grant date by our board of directors. In order to determine the fair value, our board of directors considered, among other things, contemporaneous valuations of our common stock and preferred stock prepared by unrelated third-party valuation firms in accordance with the guidance provided by the American Institute of Certified Public Accountants 2013 Practice Aid, Valuation of Privately-Held- Company Equity Securities Issued as Compensation, or the Practice Aid. Given the absence of a public trading market of our capital stock, our board of directors exercised reasonable judgment and considered a number of objective and subjective factors to determine the best estimate of the fair value of our common stock, including:

- contemporaneous third-party valuations of our common stock;
- the prices, rights, preferences and privileges of our preferred stock relative to our common stock;
- our business, financial condition and results of operations, including related industry trends affecting our operations;
- the likelihood of achieving a liquidity event, such as an initial public offering or sale of our company, given prevailing market conditions;
- the lack of marketability of our common stock;
- the market performance of comparable publicly traded companies; and
- U.S. and global economic and capital market conditions and outlook.

### ***Critical accounting policies and significant judgments and estimates***

Our condensed financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our condensed financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, costs and expenses. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. Our most critical accounting policies are summarized below. See Note 3 to our condensed financial statements for a description of our other significant accounting policies.

### ***Recent accounting pronouncements***

See Note 3 to our condensed financial statements for a description of recent accounting pronouncements applicable to our condensed financial statements.

### ***JOBS Act Transition Period***

As an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, we can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are electing to delay our adoption of such new or revised accounting standards. As a result of this election, our condensed financial statements may not be comparable to the condensed financial statements of other public companies.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required for a Smaller Reporting Company.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed by us 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, to allow timely decisions regarding required disclosure.

The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the quarter ended March 31, 2022, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer has concluded that our disclosure controls and procedures are effective.

Management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

##### ***Changes in Internal Control over Financial Reporting:***

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2022 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are also involved in various other claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

Future litigation may be necessary to defend ourselves and our partners by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide the information required under this item.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Other than those previously disclosed by the Company in its current reports on Form 8-K as filed with the SEC, there have been no unregistered sales of the Company's equity securities during the period covered by this Quarterly Report.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

N/A

### Item 5. Other Information

N/A

### Item 6. Exhibits

31.1	<a href="#">Certification of the Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of the Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certifications of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certifications of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 16, 2022

**Crown Electrokinetics Corp.**

/s/ Doug Croxall

Doug Croxall  
Chief Executive Officer and  
Principal Executive Officer

Dated: May 16, 2022

/s/ Joel Krutz

Joel Krutz  
Chief Financial Officer and  
Principal Financial Officer

## CERTIFICATION

I, Doug Croxall, Chief Executive Officer of Crown Electrokinetics Corp. (the “registrant”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant for the period ended March 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 16, 2022

/s/ Doug Croxall

Doug Croxall  
Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Joel Krutz, Chief Financial Officer of Crown Electrokinetics Corp. (the “registrant”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant for the period ended March 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 16, 2022

/s/ Joel Krutz

Joel Krutz  
Chief Financial Officer  
(Principal Financial Officer)

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

Each of the undersigned hereby certifies, in his or her capacity as an officer of Crown Electrokinetics Corp. (the "Company"), for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his/her knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2022 (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.

Dated: May 16, 2022

*/s/ Doug Croxall*

\_\_\_\_\_  
Doug Croxall

Chief Executive Officer

(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



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

Each of the undersigned hereby certifies, in his or her capacity as an officer of Crown Electrokinetics Corp. (the "Company"), for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his/her knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2022 (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.

Dated: May 16, 2022

/s/ Joel Krutz

Joel Krutz  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.