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 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	**47-5423944**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

213.660.4250
(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	☐	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 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 August 22, 2023 was 3,018,533.

Common Stock, $0.0001 par value	CRKN	The Nasdaq Capital Market

CROWN ELECTROKINETICS CORP.

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 Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	June 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash	$ 36	$ 821
Prepaid and other current assets	756	590
Total current assets	792	1,411
Property and equipment, net	2,366	1,409
Intangible assets, net	1,688	1,598
Right of use asset	797	1,842
Goodwill	652	-
Deferred debt issuance costs	5,819	150
Other assets	33	180
TOTAL ASSETS	$ 12,147	$ 6,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,822	$ 865
Accrued expenses	408	621
Lease liability - current portion	484	574
Warrant liability	2,721	972
Notes payable at fair value	1,470	1,654
Notes payable	330	8
Total current liabilities	7,235	4,694
Lease liability - non-current portion	355	1,366
Total liabilities	7,590	6,060
Commitments and Contingencies (Note 14)		
STOCKHOLDERS' EQUITY:		
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 June 30, 2023 and December 31, 2022; liquidation preference $260 as of June 30, 2023 and 0 as of December 31, 2022	-	-
Series B preferred stock, par value $0.0001; 1,500 shares authorized, 1,443 shares outstanding as of June 30, 2023 and December 31, 2022; liquidation preference $1,492 as of June 30, 2023 and 0 as of December 31, 2022	-	-
Series C preferred stock, par value $0.0001; 600,000 shares authorized, 500,756 shares outstanding as of June 30, 2023 and December 31, 2022; liquidation preference $511 as of June 30, 2023 and 0 as of December 31, 2022	-	-
Series D preferred stock, par value $0.0001; 7,000 shares authorized, 0 shares issued and outstanding as of June 30, 2023 and 1,058 as of December 31, 2022; liquidation preference 0 as of June 30, 2023 and $1,113 as of December 31, 2022	-	-
Series E preferred stock, par value $0.0001; 77,000 shares authorized, 21,000 shares committed pending shareholder approval as of June 30, 2023 and no shares outstanding as of December 31, 2022	-	-
Series F preferred stock, par value $0.0001; 9,073 shares authorized, 5,251 shares outstanding as of June 30, 2023 and no shares outstanding as of December 31, 2022	-	
Series F-1 preferred stock, par value $0.0001; 9,052 shares authorized, 3,583 shares outstanding as of June 30, 2023 and no shares outstanding as of December 31, 2022.	-	
Series F-2 preferred stock, par value $0.0001; 9,052 shares authorized, 1,153 shares outstanding as of June 30, 2023 and no shares outstanding as of December 31, 2022.	-	
Common stock, par value $0.0001; 800,000,000 shares authorized; 1,067,341 and 337,392 shares outstanding as of June 30, 2023 and December 31, 2022, respectively	6	2
Additional paid-in capital	109,381	88,533
Accumulated deficit	(104,830)	(88,005)
Total stockholders' equity	4,557	530
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,147	$ 6,590

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue	$ 37	$ -	$ 59	$ -
Cost of revenue	23	-	54	-
Gross profit	14	-	5	-
Operating expenses:				
Research and development	490	1,473	1,031	2,568
Selling, general and administrative	4,409	3,002	7,985	6,474
Total operating expenses	4,899	4,475	9,016	9,042
Loss from operations	(4,885)	(4,475)	(9,011)	(9,042)
Other income (expense):				
Interest expense	(2,508)	(2)	(4,525)	(5)
Loss on extinguishment of warrant liability	-	-	(504)	-
Loss on extinguishment of debt	(2,345)	-	(2,345)	
Gain on issuance of convertible notes	-	-	64	-
Change in fair value of warrants	2,130	-	7,736	-
Change in fair value of notes	(6,883)	-	(7,000)	-
Other expense	(28)	-	(1,234)	-
Total other income (expense)	(9,634)	(2)	(7,808)	(5)
Loss before income taxes	(14,519)	(4,477)	(16,819)	(9,047)
Income tax expense	-	-	-	-
Net loss	(14,519)	(4,477)	(16,819)	(9,047)
Deemed dividend on Series D preferred stock	-	-	(6)	-
Cumulative dividends on Series A preferred stock	(5)	-	(9)	-
Cumulative dividends on Series B preferred stock	(29)	-	(49)	-
Cumulative dividends on Series C preferred stock	(10)	-	(10)	-
Cumulative dividends on Series D preferred stock	(53)	-	(84)	-
Net loss attributable to common stockholders	$ (14,616)	$ (4,477)	$ (16,997)	$ (9,047)
Net loss per share attributable to common stockholders	$ (18.02)	$ (16.35)	$ (25.96)	$ (33.62)
Weighted average shares outstanding, basic and diluted:	810,983	273,767	653,848	269,094

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share and per share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock		Series F Preferred Stock		Series F-1 Preferred Stock		Series F-2 Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Capital	Deficit	Equity
Balance as of December 31, 2022	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**1,058**	**$ -**	**-**	**$ -**	**-**	**$ -**	**-**	**$ -**	**-**	**$ -**	**338,033**	**$ 2**	**$ 88,533**	**$ (88,005)**	**$ 530**
Exercise of common stock warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109,257	1	2,061	-	2,062
Issuance of common stock in connection with conversion of notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,466	-	516	-	516
Issuance of common stock/At-the-market offering, net of offering costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	211,667	1	2,106	-	2,107
Issuance of Series E preferred stock in connection with LOC	-	-	-	-	-	-	-	-	5,000	-	-	-	-	-	-	-	-	-	4,350	-	4,350
Deemed dividend for repricing of Series D preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	(6)	-
Commitment to issue shares of common stock in connection with March waiver agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	298	-	298
Issuance of common stock in connection with Series A and Series B Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,921	-	-	-	-
Issuance of common stock upon the conversion of Series E preferred stock	-	-	-	-	-	-	-	-	(5,000)	-	-	-	-	-	-	-	83,334	1	-	-	1
Issuance of common stock in connection with conversion of October Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	248,984	1	2,165	-	2,166
Dividends paid in shares of Series D preferred stock	-	-	-	-	-	-	139	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Series D preferred stock exchanged for Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	(1,197)	-	-	-	1,847	-	-	-	-	-	-	-	(450)	-	(450)
Conversion of Demand Notes and October Notes into Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	-	-	-	-	3,198	-	-	-	-	-	-	-	1,276	-	1,276
Conversion of January Notes into Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	-	-	-	-	206	-	-	-	-	-	-	-	82	-	82
Issuance of Series F-1 preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	3,583	-	-	-	-	-	1,372	-	1,372
Issuance of Series F-2 preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,153	-	-	-	464	-	464
Commitment to issue shares of common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,410	-	2,410

stock in connection with January Notes																					
Commitment to issue shares of common stock in connection with LOC Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	230	-	230
Commitment to issue shares of Series E preferred stock in connection with LOC Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,363	-	3,363
Commitment to issue shares of common stock in connection with Demand Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286	-	286
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,335	-	313	-	313
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(16,819)	(16,819)
Balance as of June 30, 2023 (unaudited)	**251**	**-**	**1,443**	**-**	**500,756**	**-**	**-**	**-**	**-**	**-**	**5,251**	**-**	**3,583**	**-**	**1,153**	**-**	**1,067,997**	**6**	**$ 109,381**	**$ (104,830)**	**$ 4,557**

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Stockholders' Equity (Continued)
(Unaudited)
(in thousands, except share and per share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Capital	Deficit	(Deficit)
Balance as of December 31, 2021	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**242,808**	**$ 1**	**$ 82,677**	**$ (73,690)**	**$ 8,988**
Issuance of common stock/At-the-market offering, net of offering costs	-	-	-	-	-	-	853	-	58	-	58
Delivery of restricted common stock	-	-	-	-	-	-	556	-	-	-	-
Issuance of common stock warrants in connection with SLOC	-	-	-	-	-	-	-	-	223	-	223
Stock-based compensation	-	-	-	-	-	-	-	-	2,531	-	2,531
Net loss	-	-	-	-	-	-	-	-	-	(9,047)	(9,047)
Balance as of June 30, 2022 (Unaudited)	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**244,217**	**$ 1**	**$ 85,489**	**$ (82,737)**	**$ 2,753**

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Stockholders’ Equity (Continued)
(Unaudited)
(in thousands, except share and per share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock		Series F Preferred Stock		Series F-1 Preferred Stock		Series F-2 Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders’ Equity
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount			
Balance as of March 31, 2023 (Unaudited)	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**1,058**	**$ -**	**5,000**	**$ -**	**-**	**$ -**	**-**	**$ -**	**-**	**$ -**	**728,758**	**$ 4**	**$ 98,051**	**$ (90,311)**	**$ 7,744**
Issuance of common stock in connection with Series A and Series B Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,921	-	-	-	-
Issuance of common stock upon the conversion of Series E preferred stock	-	-	-	-	-	-	-	-	(5,000)	-	-	-	-	-	-	-	83,334	1	-	-	1
Issuance of common stock in connection with conversion of October Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	248,984	1	2,165	-	2,166
Dividends paid in shares of Series D preferred stock	-	-	-	-	-	-	139	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Series D preferred stock exchanged for Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	(1,197)	-	-	-	1,847	-	-	-	-	-	-	-	(450)	-	(450)
Conversion of Demand Notes and October Notes into Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	-	-	-	-	3,198	-	-	-	-	-	-	-	1,276	-	1,276
Conversion of January Notes into Series F preferred stock in connection with Exchange Agreements	-	-	-	-	-	-	-	-	-	-	206	-	-	-	-	-	-	-	82	-	82
Issuance of Series F-1 preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	3,583	-	-	-	-	-	1,372	-	1,372
Issuance of Series F-2 preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,153	-	-	-	464	-	464
Commitment to issue shares of common stock in connection with January Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,410	-	2,410
Commitment to issue shares of common stock in connection with LOC Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	230	-	230
Commitment to issue shares of Series E preferred stock in connection with LOC Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,363	-	3,363
Commitment to issue shares of common stock in connection with Demand Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286	-	286
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132	-	132
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,519)	(14,519)
Balance as of June 30, 2023 (Unaudited)	**251**	**-**	**1,443**	**-**	**500,756**	**-**	**-**	**-**	**-**	**-**	**5,251**	**-**	**3,583**	**-**	**1,153**	**-**	**1,067,997**	**6**	**$ 109,381**	**$ (104,830)**	**$ 4,557**

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Stockholders' Equity (Continued)
(Unaudited)
(in thousands, except share and per share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Capital	Deficit	Equity
Balance as of March 31, 2022 (Unaudited)	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**243,364**	**$ 1**	**$ 83,983**	**$ (78,260)**	**$ 5,724**
Issuance of common stock/At-the-market offering, net of offering costs	-	-	-	-	-	-	853	-	58	-	58
Stock-based compensation	-	-	-	-	-	-	-	-	1,448	-	1,448
Net loss	-	-	-	-	-	-	-	-	-	(4,477)	(4,477)
Balance as of June 30, 2022 (Unaudited)	**251**	**$ -**	**1,443**	**$ -**	**500,756**	**$ -**	**244,217**	**$ 1**	**$ 85,489**	**$ (82,737)**	**$ 2,753**

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

CROWN ELECTROKINETICS CORP.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six months ended June 30, 2023	Six months ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (16,819)	$ (9,047)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	313	2,531
Depreciation and amortization	372	234
Loss on extinguishment of warrant liability	504	-
Change in fair value of warrant liability	(7,736)	-
Loss on extinguishment of debt	2,345	
Change in fair value of notes	7,000	-
Amortization of deferred debt issuance costs	4,049	-
Amortization of right of use assets	1,045	239
Other expenses	1,275	-
Loss on disposal of equipment	235	52
Changes in operating assets and liabilities:		
Prepaid and other assets	(14)	3
Accounts payable	886	370
Accrued expenses	(742)	(182)
Lease liability	(1,101)	(143)
Net cash used in operating activities	(8,388)	(5,943)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for acquisition of Amerigen 7	(644)	-
Purchase of equipment	(707)	(258)
Purchase of patents	-	(61)
Net cash used in investing activities	(1,351)	(319)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of warrants	2,061	-
Proceeds from the issuance of common stock / At-the-market offering	2,198	60
Proceeds from the issuance of notes in connection with Line of Credit	2,350	-
Offering costs for the issuance of common stock / At-the-market offering	(91)	(2)
Proceeds from a deposit for Series D preferred stock (shares liability)	-	1,058
Proceeds from issuance of Series F-1 preferred stock	2,328	-
Proceeds from issuance of Series F-2 preferred stock	748	-
Proceeds from issuance of January promissory notes, net of fees paid	1,357	-
Repayment of notes payable	(1,997)	-
Net cash provided by financing activities	8,954	1,116
Net increase / decrease in cash	(785)	(5,146)
Cash — beginning of period	821	6,130
Cash — end of period	$ 36	$ 984
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of Series E preferred stock in connection with LOC	$ 9,943	$ -
Issuance of Series F preferred stock in connection with exchange of Series D preferred stock	$ 450	$ -
Issuance of common stock in connection with conversion of notes	$ 516	$ -
Issuance of common stock warrants in connection with SLOC	$ -	$ 223
Deemed dividend for repricing of Series D preferred stock	$ 6	$ -
Commitment to issue shares of common stock in connection with Demand Notes	$ 286	$ -
Unpaid equipment included in accounts payable	$ 92	$ 112
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 8	$ 3

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

Notes to the Condensed Consolidated Financial Statements
(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 December 20, 2022, the Company incorporated Crown Fiber Optics Corp., a Delaware based entity, to own and operate its acquired business from the acquisition of Amerigen 7, LLC ("Amerigen 7") in January 2023. Crown Fiber Optics Corp. is accounted for as a wholly- owned subsidiary of Crown Electrokinetics, Corp.

Preferred Stock

Subsequent to December 31, 2022, the Company filed the first amendment to its Series D preferred stock, which modifies the conversion price of the Series D preferred stock from $78.00 to $30.00 per share (See Note 12).

On February 1, 2023, the Company's Board of Directors authorized 77,000 shares of Series E preferred stock with a par value of $0.0001 per share. Each share of Series E Preferred Stock is convertible into 1,000 shares of the Company's common stock at the option of the holders (See Note 12).

On June 4, 2023, the Company's Board of Directors authorized 9,073 shares of Series F preferred stock with a par value of $0.0001 per share. Each share of Series F Preferred Stock has a stated value of $1,000 and is convertible at the option of the holders into shares of the Company's common stock at an initial conversion price of $8.868 (See Note 12).

On June 13, 2023, the Company's Board of Directors authorized 9,052 shares of Series F-1 preferred stock with a par value of $0.0001 per share. Each share of Series F-1 Preferred Stock has a stated value of $1,000 and is convertible at the option of the holders into shares of the Company's common stock at an initial conversion price of $8.994 (See Note 12).

On June 14, 2023, the Company's Board of Directors authorized 9,052 shares of Series F-2 preferred stock with a par value of $0.0001 per share. Each share of Series F-2 Preferred Stock has a stated value of $1,000 and is convertible at the option of the holders into shares of the Company's common stock at an initial conversion price of $9.228 (See Note 12).

Business Combination

On January 3, 2023, the Company acquired certain assets related to the construction of 5G fiber optics infrastructure and distributed antenna systems from Amerigen 7 (the "Business Combination"), for cash consideration of approximately $0.65 million (See Note 4).

Reverse Stock Split

On August 11, 2023, the Company's Board of Directors authorized a reverse stock split ('Reverse Stock Split") at an exchange ratio of one (1) share of common stock for every sixty (60) shares of common stock. The Reverse Stock Split was effective on August 15, 2023, such that every sixty (60) shares of common stock have been automatically converted into one (1) share of common stock. The Company did not issue fractional certificates for post-reverse split shares in connection with the Reverse Stock Split. Rather, all shares of common stock that were held by a stockholder were aggregated and each stockholder was 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 were rounded up to the next whole share.

The number of authorized shares of the common stock was not adjusted as a result of the Reverse Stock Split. All share and per share data in these condensed consolidated financial statements have been retrospectively adjusted to reflect the effect of the Reverse Stock Split for all periods presented. The shares of common stock retain a par value of $0.0001 per share. Accordingly, an amount equal to the par value of the decreased shares resulting from the Reverse Stock Split was reclassified from common stock to additional paid-in capital.

Note 2 – Liquidity, Financial Condition, and Going Concern

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 consolidated financial statements, the Company had an accumulated deficit of approximately $104.8 million and negative working capital of approximately $6.4 million at June 30, 2023, a net loss of approximately $17.0 million, and approximately $8.4 million of net cash used in operating activities for the six months ended June 30, 2023. The Company expects to continue to incur ongoing administrative and other expenses, including public company expenses.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

The Company will seek to obtain additional capital through the sale of debt or equity financings or other arrangements to fund operations including through its existing At-The-Market offering, $10 million Standing Letter of Credit ("SLOC"), the $100 million Line of Credit, and the $50 million Equity Line of Credit (Note 15 Subsequent Event); however, there can be no assurance that the Company will be able to raise needed capital under acceptable terms, if at all. The sale of additional equity may dilute existing stockholders and newly issued shares may contain senior rights and preferences compared to currently outstanding shares of common stock. Issued debt securities may contain covenants and limit the Company's ability to pay dividends or make other distributions to stockholders. If the Company is unable to obtain such additional financing, future operations would need to be scaled back or discontinued. Due to the uncertainty in the Company's ability to raise capital, management believes that there is substantial doubt in the Company's ability to continue as a going concern for twelve months from the issuance of these condensed consolidated financial statements.

At-the-Market Offerings

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 $5.0 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.

During the six months ended June 30, 2023, the Company received net proceeds on sales of shares of common stock under the Sales Agreement of approximately $2.1 million (after deducting $0.1 million in commissions and expenses) at a weighted average price of $10.38 per share.

On July 5, 2023, the Company and the Sales Agents filed the second amendment to the Sales Agreement (the "Second Amendment to the Sales Agreement"). Pursuant to the First Amendment to the Sales Agreement, the Company may from time to time, sell up to $5.1 million in Placement Shares of the Company's common stock through the Sales Agents in a continuous At-the-Market Offering (the Amended ATM Offering"). According to the First Amendment to the Sales Agreement, 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 its common stock in the Amended ATM Offering.

Subsequent to June 30, 2023, the Company received net proceeds on sales of 545,100 shares of common stock of approximately $1.59 million (after deducting $0.76 million in commissions and expenses) at a weighted average price of $3.05 per share.

Line of Credit

On February 2, 2023, the Company entered into a line of credit agreement (the “Line of Credit”) securing a line of credit up to $100.0 million. The Line of Credit will be used to fund expenses related to the fulfillment of contracts with customers of the Company’s wholly-owned subsidiary, Crown Fiber Optics Corporation (See Note 1). The Line of Credit expires February 2, 2024, unless the Line of Credit is extended for one or two additional years in accordance with its terms. On February 2, 2023, the Company drew down $2.0 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a Secured Promissory Note (the “2023 Note”) which is due and payable 60 days from the issuance date (See Note 11).

On May 16, 2023, the Company made a second draw of $0.2 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a second Secured Promissory Note (the “2nd 2023 Note”) which is due and payable July 16, 2023. The 2nd 2023 Note shall accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2nd 2023 Note.

On May 26, 2023, the Company made a third draw of $0.15 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a third Secured Promissory Note (the “3rd 2023 Note”) which is due and payable June 2, 2023. The 3rd 2023 Note included a $200,000 Commitment fee and does not bear interest.

On June 13, 2023, the Company partially redeemed the principal amount of the 2023 Note and fully redeemed the principal amount of the 2nd 2023 Note and 3rd 2023 Note in addition to all accrued interest and commitment fees owing for approximately $2.1 million.

Demand Notes

Between May 17, 2023 and May 18, 2023, the Company issued secured demand promissory notes (the “Demand Notes”) to certain investors (the “Demand Holders”) in an aggregate principal amount equal to $229,877. The Demand Notes are due and payable at any time upon demand by a Demand Holder after the earlier of (i) the consummation of the Company’s first securities offering after the issuance of the Demand Notes and (ii) July 16, 2023. The Demand Notes do not bear interest. In connection with the issuance of the Demand Notes, the Company agreed to issue, pending shareholder approval, to the Demand Holders an aggregate of 76,626 shares of the Company’s common stock.

On May 30, 2023, the Company issued secured demand promissory notes (the “2nd Demand Notes”) to certain investors (the “2nd Demand Holders”) in an aggregate principal amount equal to $140,804. The 2nd Demand Notes are due and payable at any time upon demand by a 2nd Demand Holder after the earlier of (i) the consummation of the Company’s first securities offering after the issuance of the 2nd Demand Notes and (ii) July 16, 2023. The 2nd Demand Notes do not bear interest. In connection with the issuance of the 2nd Demand Notes, the Company agreed to issue, pending shareholder approval, to the 2nd Demand Holders an aggregate of 46,935 shares of the Company’s common stock.

Exchange Agreements

On June 4, 2023, the Company entered into Exchange Agreements (the “Exchange Agreements”): (i) with the October Investors for the exchange of October Notes in the aggregate principal amount of $2.6 million for 2,622 shares of the Company’s newly created Series F Convertible Preferred Stock (“Series F Preferred Stock”), in the aggregate; (ii) with the January Investors for the exchange of January Notes in the aggregate principal amount of $0.2 million for 206 shares of Series F Preferred Stock, in the aggregate; (iii) with the Demand Noteholders for the exchange of Demand Notes in the principal amount of $0.6 million for 576 shares of Series F Preferred Stock, in the aggregate; and (iv) with the purchasers of the Company’s Series D Preferred Stock for the exchange of 1,197 shares of Series D Preferred Stock for 1,847 shares of Series F Preferred Stock, in the aggregate.

In addition, in connection with the Exchange Agreements, the Company issued new five-year warrants to purchase an aggregate of 592,129 shares of Common Stock (the "Exchange Warrants") to the October Investors, the January Investors, and the purchasers of the Company's Series D Preferred Stock. The Exchange Warrants are exercisable at an exercise price of $8.868 per share of Common Stock, subject to certain adjustments as set forth in the Exchange Warrants. The holders may exercise the Exchange Warrants on a cashless basis if the shares of our Common Stock underlying the Exchange Warrants are not then registered pursuant to an effective registration statement. The Company concluded that the Exchange Warrants are liability classified.

For the October Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $1.7 million ($1.1 million for Series F Preferred Stock and $0.6 million for Warrant Liability). For the January Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.13 million ($0.1 million for Series F Preferred Stock and $0.03 million for the Warrant Liability). For the Demand Note holders, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.4 million ($0.2 million for Series F Preferred Stock and $0.2 million for the Warrant Liability). For the purchasers of the Company's Series D Preferred Stock, the Company accounted for the exchange as an extinguishment of the Series D Preferred Stock. The Company recorded the total fair value of Series F Preferred Stock and Warrant Liability of $1.2 million ($0.7 million for Series F Preferred Stock and $0.5 million for the Warrant Liability) and the difference of $0.5 million with the $0.7 million carrying value of the Series D Preferred Stock as a deemed dividend and reduction to additional-paid-in-capital.

Series F-1 Preferred Stock Offering

On June 13, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement (the "Closing") the Purchasers agreed to purchase an aggregate of 3,583 shares of the Company's newly created Series F-1 Convertible Preferred Stock ("Series F-1 Preferred Stock") for an aggregate purchase price of approximately $2.3 million .. In addition, in connection with the issuance of the Series F-1 Preferred Stock, the Purchasers will receive five-year warrants to purchase an aggregate of 398,377 shares of Common Stock (defined below) (the "Series F-1 Warrants"). The Series F-1 Warrants will be exercisable at an exercise price of $8.994 per share of the Company's common stock, subject to certain adjustments as set forth in the Warrants. The holders may exercise the Warrants on a cashless basis if the shares of our Common Stock underlying the Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the Purchasers to consummate the transactions contemplated by the Purchase Agreement are subject to the satisfaction on or prior to the Closing of customary closing conditions.

Series F-2 Preferred Stock Offering

On June 14, 2023, the Company entered into a Securities Purchase Agreement (the "F-2 Purchase Agreement") with certain accredited investors (the "F-2 Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement (the "F-2 Closing") the F-2 Purchasers agreed to purchase an aggregate of 1,153 shares of the Company's newly created Series F-2 Convertible Preferred Stock ("Series F-2 Preferred Stock") for an aggregate purchase price of approximately $0.7 million. In addition, in connection with the issuance of the Series F-2 Preferred Stock, the F-2 Purchasers will receive five-year warrants to purchase an aggregate of 124,946 shares of Common Stock (defined below) (the "F-2 Warrants"). The F-2 Warrants will be exercisable at an exercise price of $9.228 per share of Common Stock, subject to certain adjustments as set forth in the F-2 Warrants. The holders may exercise the F-2 Warrants on a cashless basis if the shares of our Common Stock underlying the F-2 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the F-2 Purchasers to consummate the transactions contemplated by the F-2 Purchase Agreement are subject to the satisfaction on or prior to the F-2 Closing of customary closing conditions.

Risks and Uncertainties

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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 3 - Significant Accounting Policies

Basis of Presentation

The Company’s condensed consolidated 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 condensed consolidated results of operations for the six months ended June 30, 2023 are not necessarily indicative of the results for the full year or the results for any future periods. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended December 31, 2022 included in the Company’s Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2023.

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. The most significant estimates in the Company’s condensed consolidated financial statements relate to the valuation of its business combination, senior secured convertible notes and warrants, Series F/F-1/F-2 Preferred Stock, warrants, and equity-based awards. 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, 2022 financial statements included in its 2022 Annual Report.

Revenue Recognition

The Company adopted the new revenue standard, ASC 606, on March 31, 2019 using the full retrospective approach. The adoption did not have an effect on 2021 or 2020 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 the Company transfers a promised good or service to the customer and when the customer pays is one year or less, the Company has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component.

The Company's performance obligation is to provide fiber splicing services as required based on short-term work orders as work is assigned by the Customer. The Company is required to complete the description of work described in the work order and test the service provided prior to any recognition of revenue and invoicing. The short-term work orders are for very specific performance obligations which are performed from start to finish within two weeks or less, and more often, within one week. The Company is required to adhere to the rules and regulations that are outlined in the Agreement between the Company and the Customer.

Cost for the work performed is outlined in the individual work orders based on the detailed description of work to be performed. All of the revenue is recognized immediately upon completion of the work in each work order. A 5% retainage will be withheld by the Customer upon payment of invoices and will be paid to the Company within one year after termination of the contract. The retainage can be utilized by Customer for any claims that may arise after work is completed up through one year after completion.

Revenue recognized during the six months ended June 30, 2023 was generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was immaterial. No revenue was recognized by the Company during the six months ended June 30, 2022.

Financial Instruments – Credit Losses

Measurements of Credit Losses on Financial Instruments ("ASC 326"), which replaces the existing incurred loss model with a current expected credit loss ("CECL") model that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company would be required to use a forward-looking CECL model for accounts receivables, guarantees and other financial instruments. The Company adopted ASC 326 on January 1, 2023 and ASC 326 did not have a material impact on its financial statements.

Segment and Reporting Unit Information

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is determined to be the CODM. On January 3, 2023, the Company acquired Crown Fiber Optics, Corp. (see Note 1) and is currently in the process of integrating this new business line including identifying leadership, and aligning management reporting and allocation methodologies. The Company is assessing its current segment structure in conjunction with the integration efforts.

Business Combinations

The Company accounts for business combinations using the guidance provided by Accounting Standards Codification ("ASC") 805, *Business Combinations*. ASC 805 requires the Company to use the acquisition method of accounting by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any non-controlling interest in the acquired business, measured at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the aforementioned amounts.

Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets. Although the Company believes the assumptions and estimates made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain intangible assets we have acquired include future expected cash flows from customer contracts. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results. The initial purchase price may be adjusted as needed per the terms of the arrangement agreement. The allocation of purchase price, including any fair value the assets acquired and liabilities assumed as of the acquisition date has not been completed.

Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Deferred Debt Issuance Costs

The Company accounts for debt issuance costs related to its Line of Credit as a deferred asset which is amortized over the life of the Line of Credit. Since the Company has elected the fair value option for its convertible notes (see below), upon a draw down, a portion of the deferred asset balance will be amortized to other expense. On the issuance date of the Company's Line of Credit, the cost related to issuance of the Series E preferred shares and the warrant to purchase Series E preferred shares was recorded as a deferred asset.

Goodwill

The Company performs a goodwill impairment analysis on October 1^{st} of each year. When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation to determine if it is more likely than not that the fair value of its reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill impairment test.

Convertible Notes and Notes Payable

In accordance with Accounting Standards Codification 825, *Financial Instruments* ("ASC 825"), the Company has elected the fair value option for recognition of its convertible notes and notes payable. In accordance with ASC 825, the Company recognizes these notes at fair value with changes in fair value recognized in the statements of operations. The fair value option may be applied instrument by instrument, but it is irrevocable. As a result of applying the fair value option, direct costs and fees related to the convertible notes and notes payable were recognized in other expense. The Company will include the interest expense as a component of the notes fair value.

Warrants

The Company accounted for certain common stock warrants outstanding as a liability at fair value and adjusted the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's statements of operations. The fair value of the warrants issued by the Company have been estimated using the Black Scholes Methodology.

<u>SLOC</u>

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 meet the criteria in ASC 815-40 to be classified within stockholders' equity, and therefore, the warrants are not revalued after issuance. The Company uses 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 June 30, 2023, 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.

<u>*Purchase Order Warrants*</u>

The Company accounts for its warrants issued in connection with purchase orders in accordance with ASC 606, *Revenue Recognition.* With respect to the warrant, the Company accounts for it as consideration payable to a customer under ASC 606, as it relates to the future purchase of the Company's Smart Window Inserts™. Pursuant to ASC 718 *Compensation - Stock Compensation ("*ASC 718*")*, the Company measured the fair value of the warrant using the Black-Scholes valuation model on the issuance date, with the value being recognized as a prepaid asset up to the recoverable value represented by the value of the contract.

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.

Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share at June 30, 2023 and 2022 are as follows:

	June 30,	
	2023	**2022**
Series A preferred stock	3,146	3,146
Series B preferred stock	33,883	33,883
Series C preferred stock	9,346	9,346
Series F preferred stock	592,130	-
Series F-1 preferred stock	398,377	-
Series F-2 preferred stock	124,946	-
Convertible notes	11,667	-
Warrants to purchase common stock (excluding penny warrants)	1,760,095	78,787
Warrants to purchase Series E preferred stock	750,000	-
Options to purchase common stock	157,779	151,892
Unvested restricted stock units	7,139	8,613
Commitment shares	783,806	-
	4,632,314	285,667

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.

Note 4 – Acquisitions

On January 3, 2023, the Company completed its Business Combination as described in Note 1. In accordance with the terms of the Business Combination, the Company paid cash consideration of approximately $0.65 million. The Business Combination included approximately 12 employees, customer contracts, and certain operating liabilities. The initial purchase price may be adjusted as needed per the terms of the agreement. The measurement period for the Business Combination will be up to one year from the acquisition date.

The following table summarizes the allocation of the purchase price to the assets acquired and liabilities assumed for the Amerigen 7 acquisition (in thousands):

Property and equipment	$	655
Intangible assets		200
Security deposits		5
Accrued expenses		(529)
Notes payable		(338)
Total identifiable assets and liabilities acquired		(7)
Goodwill		652
Total purchase consideration	$	645

The Company engaged an independent valuation specialist to conduct a valuation analysis of the identifiable intangible assets acquired by the Company with the objective of estimating the fair value of such assets as of January 3, 2023. The valuation specialist utilized the Income Approach, specifically the Multi-Period Excess Earnings Method, to value the existing customer relationship.

Note 5 - Prepaid and Other Current Assets

Prepaid and other current assets consist of the following (in thousands):

	June 30, 2023	**December 31, 2022**
License fees	$ 215	$ 300
Notes receivable	-	-
Professional fees	385	-
Insurance	34	142
Hudson warrant *	86	85
Other	36	63
Total	$ 756	$ 590

* Fair value of warrant issued to Hudson Pacific Properties, L.P. (See Note 13)

Note 6 - Property & Equipment, Net

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

	June 30, 2023	**December 31, 2022**
Equipment	$ 2,456	$ 1,457
Leasehold improvements	362	362
Vehicles	159	-
Computers	55	52
Other	44	-
Total	3,076	1,871
Less accumulated depreciation and amortization	(710)	(462)
Property and equipment, net	$ 2,366	$ 1,409

Depreciation expense for the three months ended June 30, 2023 and 2022 was $0.1 million and $0.1 million, respectively. Depreciation expense for the six months ended June 30, 2023 and 2022 was $0.3 million and $0.1 million, respectively.

Note 7 - Intangible Assets, Net

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

	June 30, 2023	December 31, 2022
Patents	$ 1,800	$ 1,800
Research license	375	375
Customer relationships	200	-
Total	2,375	2,175
Accumulated amortization	(687)	(577)
Intangible assets, net	$ 1,688	$ 1,598

The following table represents the total estimated amortization of intangible assets for the five succeeding years and thereafter as of June 30, 2023 (in thousands):

	Estimated Amortization Expense
Six months ended December 31, 2023	$ 121
Year ended December 31, 2024	235
Year ended December 31, 2025	234
Year ended December 31, 2026	197
Year ended December 31, 2027 and thereafter	901
Total	$ 1,688

For the three months ended June 30, 2023 and 2022, amortization expense was approximately $0.1 million and $0.1 million, respectively. For the six months ended June 30, 2023 and 2022, amortization expense was approximately $0.1 million and $0.1 million, respectively.

Note 8 – Deferred Debt Issuance Costs

Deferred debt issuance costs consist of the following (in thousands):

	June 30, 2023	December 31, 2022
SLOC	$ 150	$ 223
Line of Credit	$ 9,943	-
Total	10,093	223
Accumulated amortization	(4,274)	(73)
Deferred debt issuance costs, net	$ 5,819	$ 150

Line of Credit

On February 2, 2023, the Company entered into its Line of Credit and recorded deferred debt issuance costs of approximately $9.9 million (See Note 2). During the six months ended June 30, 2023, the Company recognized amortization expense of approximately of $4.1 million in connection with the Line of Credit, which is recorded as interest expense on the accompanying condensed consolidated statement of operations. During the six months ended June 30, 2023, in connection with the $2.4 million draw down and issuance of the convertible promissory notes, the Company recognized amortization expense of approximately $0.2 million, which is recorded as interest expense on the accompanying condensed consolidated statement of operations (See Note 2).

SLOC

For the three months ended June 30, 2023 and 2022, in connection with its SLOC, the Company recognized amortization expense of approximately $28,000 and $26,000, respectively, which is recorded as interest expense on the accompanying condensed consolidated statements of operations. For the six months ended June 30, 2023 and 2022, in connection with its SLOC, the Company recognized amortization expense of approximately $69,000 and $29,000, respectively.

Note 9 - Fair Value Measurements

The following table classifies the Company's liabilities measured at fair value on a recurring basis into the fair value hierarchy as of June 30, 2023 and December 31, 2022:

	Fair value measured at June 30, 2023			
	Total carrying value at June 30, 2023	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liabilities:				
Convertible notes	$ 1,470	$ -	$ -	$ 1,470
Warrant liability	$ 2,721	$ -	$ -	$ 2,721

	Fair value measured at December 31, 2022			
	Total carrying value at December 31, 2022	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liabilities:				
Convertible notes	$ 1,654	$ -	$ -	$ 1,654
Warrant liability	$ 972	$ -	$ -	$ 972

For the six months ended June 30, 2023 there was an increase of approximately $1.6 million in Level 3 liabilities measured at fair value.

The fair value of the convertible notes may change significantly as additional data is obtained, impacting the Company's assumptions used to estimate the fair value of the liabilities. In evaluating this information, considerable judgment is required to interpret the data used to develop the assumptions and estimates. The estimates of fair value may not be indicative of the amounts that could be realized in a current market exchange. Accordingly, the use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts, and such changes could materially impact the Company's results of operations in future periods.

The following table presents changes in Level 3 liabilities measured at fair value for the six months ended June 30, 2023. Unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

	Convertible Notes	Warrant Liability
Balance at December 31, 2022	**$ 1,654**	**$ 972**
Conversion of October convertible notes	(516)	
Issuance of convertible note in connection with Line of Credit	2,000	
Change in fair value of convertible notes in connection with March waiver agreement	368	
Gain on issuance of convertible note	(64)	
January Notes - reclass to fair value option	1,117	
Settlement in Connection with October Note	(2,166)	
Conversion of October Notes	(1,685)	
Settlement in Connection with LOC	(5,893)	
LOC Note issuance	350	
Warrants issued in connection with January promissory note		157
Warrants issued in connection with Line of Credit		5,593
Warrants issued in connection with inducement agreement		760
Warrants issued in connection with February waiver agreement		711
Fair value of warrants exercised		(759)
Other income (expense):		504
Warrants Issued in connection with Demand Notes Series F Exchange		140
Warrants Issued in connection with January Notes Series F Exchange		50
Warrants Issued in connection with October Notes Series F Exchange		639
Warrants Issued in connection with Series D to Series F Exchange		450
Warrants Issued in connection with Series F-1		956
Warrants Issued in connection with Series F-2		285
Change in fair value	6,305	(7,737)
Balance at June 30, 2023	$ 1,470	$ 2,721

Convertible Notes

During the year ended December 31, 2022, the Company issued convertible promissory notes (the "2022 Notes"). The fair value of the 2022 Notes on the issuance dates, and as of December 31, 2022 were estimated using a Monte Carlo simulation to capture the path dependencies intrinsic to their terms. The significant unobservable inputs used in the fair value measurement of the Company's convertible notes are the common stock price, volatility, and risk-free interest rates. Significant changes in these inputs may result in significantly lower or higher fair value measurement. The Company elected the fair value option when recording its 2022 Notes and the 2022 Notes were classified as liabilities and measured at fair value on the issuance date, with changes in fair value recognized as other income (expense) on the statements of operations and disclosed in the condensed consolidated financial statements.

During the six months ended June 30, 2023, seven noteholders converted a portion of their 2022 Notes into 248,981 shares of the Company's commons stock (See Note 11). The fair value of the converted notes totaled $2.2 million.

February Waiver Agreement

On February 28, 2023, the Company entered into waiver agreements with holders of the 2022 Notes (See Note 11). In connection with this waiver agreement, the 2022 Notes were revalued as of the amendment date.

March Waiver Agreement

On March 24, 2023, the Company entered into the second waiver agreements with holders of the 2022 Notes (See Note 11). A select number of holders elected to increase the principal balance of their notes. The Company revalued the respective notes on the date prior to the amendment date, and again on the amendment date. The change in fair value related to the amendment of these 2022 Notes was approximately $0.4 million.

On June 4, the Company entered into an Exchange Agreement where the 2022 Notes balance with a fair value of $0.2 million was exchanged for Series F Preferred stock. As of June 30, 2023, there was no outstanding balance related to the 2022 Notes.

Line of Credit

On February 3, 2023 the Company drew down $2.0 million from the Line of Credit and in accordance with the terms of the agreement issued the 2023 Note of $2.0 million. The 2023 Note had fair value at issuance of $1.9 million and the Company recorded a gain on issuance of approximately $0.1 million, which is included in other income (expense) on the accompanying condensed statement of operations.

Between May 17, 2023 and May 30, 2023 the Company drew down $0.4 million from the Line of Credit and in accordance with the terms of the agreement issued the 2nd and 3rd Notes.

As of June 30, 2023, the fair value of the 2023 Note was approximately $0.3 million.

Warrants

Senior Secured Notes

In connection with the issuance of its senior secured notes on January 3, 2023 (See Note 11), the Company issued 41,667 warrants to purchase shares of the Company's common stock. The warrants had a fair value at issuance of $157,000, and as of June 30, 2023 have a fair value of $35,000.

Line of Credit

On February 2, 2023, in connection with the issuance of its Line of Credit, the Company issued 45,000 warrants to purchase shares of its Series E preferred stock (See Note 13). The warrants had a fair value at issuance of approximately $5.6 million, and as of June 30, 2023 have a fair value of approximately $0.4 million.

Warrant Inducement and Exercise Agreement

During the year ended December 31, 2022, in connection with the 2022 Notes, the Company issued 362,657 warrants to purchase shares of the Company's common stock.

During the six months ended June 30, 2023, in connection with its 2022 Notes, the Company entered into a warrant inducement and exercise agreement with certain holders. Under the terms of the agreement, the holders exercised 106,764 warrants with a fair value of approximately $0.76 million and the Company issued 106,764 new warrants to purchase shares of its common stock with a fair value of $1.26 million. The Company recognized a loss on extinguishment of the warrants of approximately $0.5 million which is included in other income (expense) on the accompanying condensed statement of operations.

February Waiver Agreement

As consideration for the February waiver agreement, the Company issued 96,890 warrants to purchase shares of the Company's common stock with a fair value of $0.7 million on issuance date.

As of June 30, 2023, there are 459,547 warrants outstanding issued in connection with the 2022 Notes, with a fair value of approximately $0.4 million.

The warrants were classified as liabilities and measured at fair value on the grant date, with changes in fair value recognized as other income (expense) on the statements of operations and disclosed in the condensed consolidated financial statements.

Exchange Agreements

As part of the Exchange Agreements, the Company issued 592,129 warrants to purchase shares of the Company's common stock. The Company concluded that the Exchange Warrants are liability classified with a fair value of $1.3 million as of June 4, 2023 issuance date. As of June 30, 2023, the fair value of the Exchange Warrants is $1.0 million.

Series F-1 and F-2 Issuances

As part of the Series F-1 and F-2 Preferred Stock issuances, the Company issued 523,323 warrants to purchase shares of the Company's common stock. The Company concluded that the Series F-1 and Series F-2 Warrants are liability classified with a fair value of $1.2 million as of the issuance date. As of June 30, 2023, the fair value of the Series F-1 and Series F-2 Warrants is $0.9 million.

A summary of significant unobservable inputs (Level 3 inputs) used in measuring warrants on the issuance dates and as of June 30, 2023 and December 31, 2022 is as follows:

	Series F / F-1 / F-2	2022 Notes	Warrants - January Note	Warrants - Series E - LOC	December 31, 2022
Date	6/4/2023	6/30/2023	6/30/2023	6/30/2023	12/31/2022
Dividend yield	0.0%	0.0%	0.0%	0.0%	0%
Expected price volatility	50.0%	50.0%	50.0%	50.0%	48.7%
Risk free interest rate	3.8% - 4.1%	4.19% - 4.26%	4.22%	4.20%	4.74%
Expected term (in years)	5.0	4.3 - 4.7	4.5	4.6	0.8

Significant changes in the expected price volatility and expected term would result in significantly lower or higher fair value measurement of the warrants, respectively.

Note 10 - Accrued Expenses

As of June 30, 2023 and December 31, 2022, the Company's accrued expenses consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
Payroll and related expenses	$ 274	$ -
Bonus	-	510
Taxes	32	-
Insurance	-	104
Other expenses	103	7
Total	$ 409	$ 621

Note 11 - Notes Payable

Convertible Notes

2022 Notes

On October 19, 2022, the Company issued its 2022 Notes with a principal balance of approximately $5.4 million and warrants to purchase 362,657 shares of the Company's common stock for net proceeds of $3.5 million. The 2022 Notes were issued with a conversion price at a 54% premium to the most recent closing price, an original issue discount ("OID") of 35%, do not bear interest, and mature upon the earlier of twelve months from the date of issuance or the closing of a change of control transaction (as defined in the 2022 Notes). The 2022 Notes are convertible into shares of the Company's common stock at a conversion price of $29.7 per share, subject to adjustment under certain circumstances described in the notes. The 2022 Notes are secured by all of the Company's assets (subject to exceptions for certain strategic transactions). The warrants have an exercise price of $19.32 per share and expire five years from the issuance date (subject to adjustment under certain circumstances described in the warrants).

During the six months ended June 30, 2023, in connection with its 2022 Notes, the Company entered into a warrant inducement and exercise agreement with certain holders of the 2022 Notes (See Notes 7 and 13).

On February 28, 2023, the Company entered into waiver agreements with holders of the 2022 Notes which extended the maturity date of the 2022 Notes from October 19, 2023 to April 18, 2024. As consideration for this agreement, the Company issued 96,890 warrants to purchase shares of the Company's common stock (See Note 7 and 13).

On March 24, 2023, the Company entered into the waiver agreements with holders of the 2022 Notes to eliminate the minimum pricing covenant as it relates to Company's At-The-Market facility. As consideration for this agreement, the Company provided the holders with two options to choose from i) to take an additional 5% OID on their October note principal or ii) pending shareholder approval, to be issued shares of common stock with a value equal to the 5% OID, and to issue total shares of 31,724 as converted using the Nasdaq minimum price of $9.42. During the six months ended June 30, 2023, six of the note holders elected option i), and the Company increased the respective principal balance of the notes by approximately $0.15 million. The remaining noteholders elected option ii), and as of the date of this report, no shares of common stock have been issued. The Company recorded expense of $0.3 million associated with the commitment to issue shares of the Company's common stock.

On May 12, 2023, the Company entered into letter agreements (the "Inducement Agreements") with certain of the October Investors, pursuant to which such October Investors agreed to reduce the conversion price of October Notes in an aggregate principal amount equal to $1,500,000, to $9.42 per share, which are now convertible into 161,561 shares of the Company's common stock, representing an increase of 83,849 shares in excess of the number of shares into which such October Notes were convertible prior to the Company's entry into the Inducement Agreements.

On May 17, 2023, the Company entered into Inducement Agreements with the remaining October Investors, pursuant to which such October Investors agreed to reduce the conversion price of October Notes in an aggregate principal amount equal to $1,392,657, to $10.932 per share, which are now convertible into 127,393 shares of the Company's common stock, representing an increase of 55,242 shares in excess of the number of shares into which such October Notes were convertible prior to the Company's entry into the Inducement Agreements.

The Company elected to account for the October Notes under the fair value option. For the Inducement Agreements that were entered into as described in Note 2, the Company accounted for the change in the terms through the fair value adjustment of $2.7 million, which is included in the $6.9 million Change in FV of Notes on the Income Statement, upon the settlement of $0.2 million principal balance of the October Notes on June 4, 2023 as part of the Exchange Agreements and $1.0 million principal balance of October Notes on June 21, 2023 based on the issuance of 248,981 shares of the Company's Common Stock.

2023 Note

On February 3, 2023, upon drawing down on the Line of Credit, the Company issued its 2023 Note totaling $2.0 million, which is due and payable 60 days from the issuance date. The 2023 Note is non-interest bearing and secured by the Company's assets. The 2023 Note issued with the initial $2.0 million drawdown is convertible into shares of the Company's common stock, at a conversion price per share of $30.00 per share, subject to adjustment under certain circumstances described in the 2023 Note. Notes evidencing future withdrawals, if any, will be convertible into common stock only upon the declaration of an event of default under such promissory note.

On April 14, 2023, the Company entered into a First Amendment to the 2023 Note with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note balance until May 1, 2023 in exchange for 33,333 shares of the Company's common stock pending shareholder approval. The 2023 Note was further amended to accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2023 Note. The Company recorded a change in fair value adjustment of $0.2 million related to the commitment to issue 33,333 shares of the Company's common stock.

On May 1, 2023, the Company entered into a Second Amendment to the 2023 Note with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note balance until May 15, 2023

On May 15, 2023, the Company entered into a Third Amendment to the 2023 Note with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note until June 7, 2023 in exchange for 4,000 shares of the Company's Series E Preferred Stock, which are convertible into 66,667 shares of the Company's common stock pending shareholder approval. The Company recorded a change in fair value adjustment of $0.7 million related to the commitment to issue 4,000 shares of the Company's Series E Preferred Stock.

On May 16, 2023, the Company made a second draw of $0.2 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a second Secured Promissory Note (the "2nd 2023 Note") which is due and payable July 16, 2023. The 2nd 2023 Note shall accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2nd 2023 Note.

On May 26, 2023, the Company made a third draw of $0.15 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a third Secured Promissory Note (the "3rd 2023 Note") which is due and payable June 2, 2023. The 3rd 2023 Note included a $200,000 Commitment fee and does not bear interest. With the 3rd 2023 Note, the Company recorded a change in fair value adjustment of $0.2 million related to the Commitment fee.

On May 26, 2023, the Company entered into that certain Fourth Amendment to the 2023 Note with the lender, pursuant to which the Company will issue to Holder a convertible promissory note in the principal amount of $0.15 million due June 2, 2023 in exchange for 4,000 shares of the Company's Series E Preferred Stock, which are convertible into 66,667 shares of the Company's common stock pending shareholder approval. The Company recorded a change in fair value adjustment of $0.6 million related to the commitment to issue 4,000 shares of the Company's Series E Preferred Stock.

On June 13, 2023, the Company partially redeemed the principal of the 2023 Note and fully redeemed the principal of the 2nd 2023 Note and the 3rd 2023 Notes in addition to all accrued interest and commitment fees owing for approximately $2.1 million. With the settlement of the 2nd 2023 and the 3rd 2023 Note, the Company recorded a change in fair value adjustment of $0.1 million.

On June 30, 2023, the Company and the LOC Lender agreed to amend the 2nd 2023 Note and the 3rd 2023 Note to extend the maturity dates of each until July 16, 2023. In connection with the amendments, the Company agreed to issue to the LOC Lender: 5,000 shares of the Company's Series E Preferred Stock, which is convertible into 83,333 shares of the Company's Common Stock. Additionally, the Company agreed to issue an additional 8,000 shares of the Company's Series E Preferred Stock, which is convertible into 133,333 shares of the Company's Common Stock, to the LOC Lender for failure to comply with a covenant in the Line of Credit, as amended. The Company recorded a change in fair value adjustment of $2.0 million related to the commitment to issue 13,000 shares of the Company's Series E Preferred Stock pending shareholder approval.

Senior Secured Notes

On January 3, 2023, the Company issued senior secured notes with a principal balance of approximately $1.2 million and warrants to purchase 41,667 shares of the Company's common stock for net proceeds of $1.0 million. The senior secured notes were issued with an original issue discount of 16.7%, do not bear interest, and mature three months from the date of issuance (unless extended pursuant to the terms of the notes). Pursuant to these terms, the Notes were subsequently extended to May 3, 2023 incurring an additional 10% on Principal or $120,000. The warrants are exercisable for five years at an exercise price of $19.32, subject to adjustment under certain circumstances described in the warrants.

On May 8, 2023, the Company entered into a letter agreement (the "Extension Letter") with the lead noteholder and collateral agent for the January Notes (the "Agent"), pursuant to which we agreed to issue an aggregate of 11,833 shares of Common Stock to the holders of January Notes in exchange for the extension of the maturity date thereof until May 15, 2023.

On May 15, 2023, the Agent agreed to grant us an additional extension of the maturity date thereof until May 23, 2023 in exchange for the issuance by us to the holders of January Notes, on a pro rata basis, of 66,667 shares of our Common Stock, pending shareholder approval.

Subsequently, on May 23, 2023, the Agent agreed to grant us an extension of the maturity date thereof until May 31, 2023 in exchange for the issuance by us to the January Investors, on a pro rata basis, of 25,000 shares of our Common Stock, pending shareholder approval.

Thereafter, on May 31, 2023, the Agent for the January Notes agreed to grant us an extension of the maturity date thereof until June 12, 2023 in exchange for the issuance by us to the January Investors, on a pro rata basis, of 100,000 shares of our Common Stock, pending shareholder approval.

With the completion of the Extension Letter and additional extensions, the Company concluded that a troubled debt restructuring did not occur, but an extinguishment of the outstanding senior secured notes occurred. Subsequent to the extinguishment, the Company concluded to account for the senior secured notes using the fair value option. The Company recorded an extinguishment loss of $2.2 million. The loss was comprised of the fair value of the shares of Common Stock on the dates issued to extend the maturity date as discussed above.

On June 4, 2023, $0.2 million of the outstanding senior secured notes was settled as part of the Exchange Agreements described below. The Company accounted for the settlement as an extinguishment that resulted in a gain being recognized of $0.1 million and resulted in $0.1 million being recorded as Series F convertible preferred stock and $0.1 million being recorded as part of the warrant liability.

On June 30, 2023, the Company and the remaining January Investors agreed to extend the maturity date of the January Notes until July 31, 2023, in exchange for 41,667 shares of our Common Stock pending approval by shareholders. The Company recorded a change in fair value adjustment of $0.3 million based on the fair value of the 41,667 shares of Common Stock. As of June 30, 2023, the fair value of the outstanding senior secured notes approximated the principal balance of $1.1 million.

The secured notes and warrants were not registered under the Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state and were offered and sold in reliance upon the exemption from registration afforded by Section 4(a)(2) under the Securities Act and Regulation D promulgated thereunder and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering. The Investors are "accredited investors" as such term is defined in Regulation D promulgated under the Securities Act.

Note 12 – Stockholders' Equity

Preferred Stock

As of June 30, 2023 and December 31, 2022, there were 50,000,000 authorized shares of the Company's preferred stock, par value $0.0001**.**

Series A Preferred Sock

As of June 30, 2023 and December 31, 2022, 251 shares of Series A preferred stock are issued and outstanding.

Series B Preferred Stock

As of June 30, 2023 and December 31, 2022, 1,443 shares of Series B preferred stock are issued and outstanding.

Series C Preferred Stock

As of June 30, 2023 and December 31, 2022, 500,756 shares of Series C preferred stock are issued and outstanding.

Series D Preferred Stock

On July 8, 2022, the Company's Board of Directors authorized 7,000 shares of Series D preferred stock with a par value of $0.0001 per share. Each preferred share of Series D preferred stock has a stated valued of $16.67 per share, is convertible into shares of the Company's common stock at an initial conversion price of $78.00 per share, and is entitled to a dividend of 12% per annum. The cumulative dividends shall be paid in common stock based on the conversion price in effect on the applicable conversion date. All accrued but unpaid dividends on shares of Series D preferred stock shall increase the stated value of such shares. The Company may redeem all, but not less than all, of the Series D preferred stock for cash, at a price per share of Series D preferred stock equal to 125% of the stated value. The Series D preferred stock has no voting rights.

In July 2022, the Company issued 1,058 shares of Series D preferred stock for approximately $1.1 million. As of June 30, 2023 and December 31, 2022, zero and 1,058 shares of Series D preferred stock are issued and outstanding. 1,058 shares of Series D preferred stock were exchanged for Series F Preferred Stock and Exchange Warrants as part of the Exchange Agreements during June 2023.

In connection with the issuance of the 1,058 shares of Series D preferred stock, the Company issued 13,568 equity-classified warrants to purchase shares of the Company's common stock with an exercise price of $78.00 per share. The proceeds from the Series D preferred stock were allocated between the warrants and the Series D preferred stock based on their relative fair values.

The Company entered into a Registration Rights Agreement ("RRA") with the holders of the Series D preferred stock, whereby the Company was to use its best efforts to file a registration statement registering the resale of the shares of common stock issuable upon conversion of the Series D preferred stock and upon exercise of the warrants within thirty (30) calendar days following the closing of the Series D preferred stock offering. The Company was to use its best efforts to have the registration statement declared "effective" within ninety (90) calendar days from closing, or one hundred and twenty (120) from closing in the event the registration statement is reviewed by the SEC. If the Company fails to meet these requirements, the RRA states that the Company shall pay to each holder an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 1.0% multiplied by the aggregate subscription amount paid by such holder pursuant to the purchase agreement, up to an aggregate of 10% of the aggregate subscription amount paid by such holder pursuant to the purchase agreement for all such liquidated damages.

Using the guidance provided by ASC 825-20 Financial Instruments, the Company determined that the RRA should be accounted for as a separate unit of account from the Series D preferred stock. Accordingly, under ASC 825-20, a financial instrument that is both within the scope of ASC 825-20 and subject to a registration payment arrangement shall be recognized and measured in accordance with ASC 825-20 without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement.

The RRA called for the Company to file a registration statement by August 25, 2022 and declare it effective within 90 days of July 26, 2022. The Company filed its registration statement on November 17, 2022, and the holders of the Series D preferred stock waived the related registration rights penalty of approximately $2,400.

The Series D preferred stock and warrants sold were not registered under the Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state and were offered and sold in reliance on the exemption from registration afforded by Section 4(a)(2) under the Securities Act and Regulation D promulgated thereunder and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering. The holders of Series D preferred stock are "accredited investors" as such term is defined in Regulation D promulgated under the Securities Act.

During the six months ended June 30, 2023, the Company filed the first amendment to its Series D preferred stock, which modifies the conversion price of the Series D preferred stock from $78.00 to $30.00 per share. The modification increased the fair value of the Series D preferred stock by approximately $6,000, which the Company recorded as a deemed dividend.

Series E Preferred Stock

On February 1, 2023, the Company's Board of Directors authorized 77,000 shares of Series E preferred stock with a par value of $0.0001 per share, in connection with its 2023 Line of Credit. Each share of Series E Preferred Stock is convertible into 1,000 shares of the Company's common stock at the option of the holders. The holders of the Series E preferred stock shall receive dividends on an as converted basis together with the holders of the Company' common stock. The Series E preferred stock has no voting rights and does not have a preference upon any liquidation, dissolution or winding-up of the Company.

Holders of Series E preferred stock are prohibited from converting shares of Series E preferred stock into shares of common stock if, as a result of such conversion, such holder, together with its affiliates, would beneficially own more than a specified percentage (to be initially set at 4.99% and thereafter adjusted by the holder to a number between 4.99% and 9.99%) of the total number of shares of common stock issued and outstanding immediately after giving effect to such conversion. In addition, in the event a conversion of Series E preferred stock would result in the holder owning more than 19.99% of the Company's outstanding shares of common stock, the number of shares of common stock that may be issued upon such conversion of Series E preferred stock, shall be limited to 19.99% of the Company's outstanding shares of common stock on that date, unless stockholder approval is obtained by the Company to issue a number of shares of common stock exceeding the limit.

On February 2, 2023, in connection with its Line of Credit, the Company issued 5,000 shares of Series E Preferred Stock as a commitment fee with a fair value of $1.45 million. In addition, the Company agreed to issue an additional 5,000 shares of Series E preferred stock on both the first and second anniversary date of the Line of Credit, or 10,000 shares on the first anniversary, if the Company does not elect to extend the maturity date of the Line of Credit. The fair value of the additional 10,000 shares of Series E preferred stock on the issuance date totaled $2.9 million. The Company recorded the total fair value of $4.35 million as additional paid-in capital with the offsetting increase to deferred debt issuance costs. The deferred debt issuance costs will be amortized over the term of the Line of Credit.

As of June 30, 2023, following Series E conversions, zero shares of Series E preferred stock are issued and outstanding. There were no shares of Series E preferred stock issued and outstanding as of December 31, 2022.

Series F Preferred Stock

On June 4, 2023, the Company entered into Exchange Agreements: (i) with the October Investors for the exchange of October Notes in the aggregate principal amount of $2.6 million for 2,622 shares of the Company's newly created Series F Convertible Preferred Stock ("Series F Preferred Stock"), in the aggregate; (ii) with the January Investors for the exchange of January Notes in the aggregate principal amount of $0.2 million for 206 shares of Series F Preferred Stock, in the aggregate; (iii) with the Demand Noteholders for the exchange of Demand Notes in the principal amount of $0.6 million for 576 shares of Series F Preferred Stock, in the aggregate; and (iv) with the purchasers of the Company's Series D Preferred Stock for the exchange of 1,197 shares of Series D Preferred Stock for 1,847 shares of Series F Preferred Stock, in the aggregate.

In addition, in connection with the Exchange Agreements, the Company issued new five-year warrants to purchase an aggregate of 592,129 shares of Common Stock (the "Exchange Warrants") to the October Investors, the January Investors, and the purchasers of the Company's Series D Preferred Stock. The Exchange Warrants are exercisable at an exercise price of $8.868 per share of Common Stock, subject to certain adjustments as set forth in the Exchange Warrants. The holders may exercise the Exchange Warrants on a cashless basis if the shares of our Common Stock underlying the Exchange Warrants are not then registered pursuant to an effective registration statement. The Company concluded that the Exchange Warrants are liability classified.

For the October Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $1.7 million ($1.1 million for Series F Preferred Stock and $0.6 million for Warrant Liability). For the January Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.13 million ($0.1 million for Series F Preferred Stock and $0.03 million for the Warrant Liability). For the Demand Note holders, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.4 million ($0.2 million for Series F Preferred Stock and $0.2 million for the Warrant Liability). For the purchasers of the Company's Series D Preferred Stock, the Company accounted for the exchange as an extinguishment of the Series D Preferred Stock. The Company recorded the total fair value of Series F Preferred Stock and Warrant Liability of $1.2 million ($0.7 million for Series F Preferred Stock and $0.5 million for the Warrant Liability) and the difference of $0.5 million with the $0.7 million carrying value of the Series D Preferred Stock as a deemed dividend and reduction to additional-paid-in-capital.

Series F-1 Preferred Stock

On June 13, 2023, the Company entered into the Purchase Agreement with the "Purchasers, pursuant to which, at the closing of the transactions contemplated by the Closing, the Purchasers agreed to purchase an aggregate of 3,583 shares of the Company's newly created Series F-1 Convertible Preferred Stock ("Series F-1 Preferred Stock") for an aggregate purchase price of approximately $2.3 million. In addition, in connection with the issuance of the Series F-1 Preferred Stock, the Purchasers will receive five-year warrants to purchase an aggregate of 398,377 shares of Common Stock (defined below) (the "Series F-1 Warrants"). The Series F-1 Warrants will be exercisable at an exercise price of $8.994 per share of the Company's Common Stock, subject to certain adjustments as set forth in the Series F-1 Warrants. The holders may exercise the Series F-1 Warrants on a cashless basis if the shares of our Common Stock underlying the Series F-1 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the Purchasers to consummate the transactions contemplated by the Purchase Agreement are subject to the satisfaction on or prior to the Closing of customary closing conditions.

The Company allocated the proceeds of $2.3 million to the liability classified Warrants with a fair value of $0.9 million and the remaining proceeds of $1.4 million to the Series F-1 Preferred Stock.

Series F-2 Preferred Stock Offering

On June 14, 2023, the Company entered into a F-2 Purchase Agreement with the F-2 Purchasers pursuant to which, at the closing of the transactions contemplated by the F-2 Closing, the F-2 Purchasers agreed to purchase an aggregate of 1,153 shares of the Company's newly created the Series F-2 Preferred Stock for an aggregate purchase price of approximately $0.7 million. In addition, in connection with the issuance of the Series F-2 Preferred Stock, the F-2 Purchasers will receive five-year warrants to purchase an aggregate of 124,946 shares of Common Stock (defined below) (the "F-2 Warrants"). The F-2 Warrants will be exercisable at an exercise price of $9.228 per share of Common Stock, subject to certain adjustments as set forth in the F-2 Warrants. The holders may exercise the F-2 Warrants on a cashless basis if the shares of our Common Stock underlying the F-2 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the F-2 Purchasers to consummate the transactions contemplated by the F-2 Purchase Agreement are subject to the satisfaction on or prior to the F-2 Closing of customary closing conditions.

The Company allocated the proceeds of $0.7 million to the liability classified the F-2 Warrants with a fair value of $0.3 million and the remaining proceeds of $0.4 million to the Series F-2 Preferred Stock.

Common Stock

Change in Authorized Shares

On December 22, 2022, the Company's Board of Directors approved increasing the Company's authorized shares of common stock from 200,000,000 to 800,000,000 shares.

Reverse Stock Split

On August 11, 2023, the Company's Board of Directors authorized a reverse stock split ('Reverse Stock Split") at an exchange ratio of one (1) share of common stock for every sixty (60) shares of common stock. The Reverse Stock Split was effective on August 15, 2023, such that every sixty (60) shares of common stock have been automatically converted into one (1) share of common stock. The Company did not issue fractional certificates for post-reverse split shares in connection with the Reverse Stock Split. Rather, all shares of common stock that were held by a stockholder were aggregated and each stockholder was 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 were rounded up to the next whole share.

Warrant Exercises

During the six months ended June 30, 2023, the Company issued 106,764 shares of its common stock in connection with the exercise of 106,764 warrants, receiving net proceeds of approximately $2.06 million at a weighted average price of $19.30 per share.

During the six months ended June 30, 2023, the Company issued 2,493 shares of its common stock in connection with the exercise of 2,778 penny warrants.

ATM Offering

As of June 30, 2023, the Company has received net proceeds on sales of 211,667 shares of common stock under its ATM Offering (See Note 2) of approximately $2.1 million (after deducting $0.1 million in commissions and expenses) at a weighted average price of $10.38 per share.

Restricted Stock

During the six months ended June 30, 2023, the Company issued 500,000 shares of its common stock in connection with vested restricted stock units.

Note 13 – Stock-Based Compensation, Stock Options, Restricted Stock Units and Warrants:

On December 22, 2022, the Company adopted its 2022 Long-Term Incentive Plan (the "2022 Plan"). Under the 2022 Plan, there are 70,000 shares of the Company's common stock available for issuance and the 2022 Plan has a termination date of October 31, 2032.

The available shares in the 2022 Plan will automatically increase on the first trading day in January of each calendar year during the term of 2022 Plan, commencing with January 2023, by such number of shares of common stock as are necessary so that the total number of shares reserved for issuance under the 2022 Plan shall be equal to 19.9% of the total number of outstanding shares of common stock, determined on a fully diluted basis as of the applicable trading date (the "Stipulated Percentage"); (b) our Board of Directors may act prior to January 1st of a given calendar year to provide that (i) there will be no such automatic annual increase in the number of shares reserved for issuance under the 2022 Plan or (ii) the increase in the number of shares for such calendar year will be a lesser number of shares than necessary to maintain the Stipulated Percentage of shares reserved for issuance under the 2022 Plan; and (c) unless an increase in shares reserved for issuance under the 2022 Plan in excess of the Initial Share Limit has been approved by our shareholders, the maximum number of shares of common stock that may be delivered pursuant to incentive stock options shall not exceed the Initial Share Limit or, if greater, the number of shares of common stock subsequently approved by the requisite vote of our shareholders entitled to vote thereon.

On December 16, 2020, the Company adopted its 2020 Long-Term Incentive Plan (the "2020 Plan"). Under the 2020 Plan, there are 88,889 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) 16,667 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 91,667 to 122,222.

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 six months ended June 30, 2023 and 2022, which are included in the accompanying statements of operations, as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Research and development expenses	$ 45	$ 445	$ 104	$ 500
Selling, general and administrative expenses	87	1,003	209	2,031
Total stock-based compensation	$ 132	$ 1,448	$ 313	$ 2,531

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 six months ended June 30, 2023 is as follows:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021				
Granted				
Canceled				
Forfeited				
Outstanding at December 31, 2022	159,295	$ 153.35	6.5	$ 26,188
Forfeited	(1,516)	$ 196.86	-	
Outstanding at June 30, 2023	157,779	$ 157.47	6.0	$ -
Exercisable at June 30, 2023	142,884	$ 167.85	5.7	$ -

Restricted stock units:

A summary of the Company's restricted stock activity during the six months ended June 30, 2023 is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at December 21, 2022	10,483	$ 82.02
Vested	(3,344)	$ 104.04
Unvested at June 30, 2023	7,139	$ 71.68

Warrants:

A summary of the Company's warrant (excluding penny warrants) activity during the six months ended June 30, 2023 is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	461,066	$ 44.88	4.5	$ -
Issued	1,405,797	$ 11.42	4.7	
Exercised	(106,768)	$ 19.20	-	
Outstanding at June 30, 2023	1,760,095	$ 18.96	4.7	$ -

2023 Liability Classified Warrants

Senior Secured Note

During the six months ended June 30, 2023, in connection with the issuance of its senior secured notes on January 3, 2023 (See Note 11), the Company issued 41,667 warrants to purchase shares of the Company's common stock with an exercise price of $19.30 per share. The warrants expire 5 years from the issuance date.

Line of Credit

During the six months ended June 30, 2023, in connection with its Line of Credit, the Company issued 45,000 Series E warrants to purchase shares of its Series E preferred stock with an exercise price of $30.00 per share multiplied by 16.67, and subject to adjustment under certain circumstances described in the warrant. (See Note 11). The warrants expire 5 years from the issuance date.

2022 Notes

During the year ended December 31, 2022, in connection with the 2022 Notes, the Company issued 362,657 warrants to purchase shares of the Company's common stock. The warrants have an exercise price of $19.30 per share and expire five years from the issuance date.

During the six months ended June 30, 2023, in connection with its 2022 Notes, the Company entered into a warrant inducement and exercise agreement with certain holders. Under the terms of the agreement, the holders exercised 106,764 warrants, and the Company issued 106,764 new warrants to purchase shares of its common stock with an exercise price of $19.30 per share. The warrants expire 5 years from the issuance date.

On February 28, 2023, the Company entered into waiver agreements with holders of the 2022 Notes and issued 96,894 warrants to purchase shares of the Company's common stock with an exercise price of $19.30 per share.

Exchange Warrants, F-1 Warrants, and F-2 Warrants

In connection with the Exchange Agreements, the Company issued new five-year warrants to purchase an aggregate of 592,137 shares of Common Stock (the "Exchange Warrants") to the October Investors, the January Investors, and the purchasers of the Company's Series D Preferred Stock. The Exchange Warrants are exercisable at an exercise price of $8.868 per share of Common Stock, subject to certain adjustments as set forth in the Exchange Warrants. The holders may exercise the Exchange Warrants on a cashless basis if the shares of our Common Stock underlying the Exchange Warrants are not then registered pursuant to an effective registration statement. The Company concluded that the Exchange Warrants are liability classified.

In connection with the issuance of the Series F-1 Preferred Stock, the Purchasers will receive five-year Warrants to purchase an aggregate of 398,379 shares of Common Stock. The Warrants will be exercisable at an exercise price of $8.994 per share of the Company's Common Stock, $0.0001 par value per share, subject to certain adjustments as set forth in the Warrants. The holders may exercise the Warrants on a cashless basis if the shares of our Common Stock underlying the Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the Purchasers to consummate the transactions contemplated by the Purchase Agreement are subject to the satisfaction on or prior to the Closing of customary closing conditions.

In connection with the issuance of the Series F-2 Preferred Stock, the F-2 Purchasers will receive five-year warrants to purchase an aggregate of 124,948 shares of Common Stock. The F-2 Warrants will be exercisable at an exercise price of $9.228 per share of Common Stock, subject to certain adjustments as set forth in the F-2 Warrants. The holders may exercise the F-2 Warrants on a cashless basis if the shares of our Common Stock underlying the F-2 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the F-2 Purchasers to consummate the transactions contemplated by the F-2 Purchase Agreement are subject to the satisfaction on or prior to the F-2 Closing of customary closing conditions.

2022 Equity Classified Warrants

Hudson Pacific Properties, L.P.

On August 12, 2022, the Company entered into two Purchase Orders (PO's) with Hudson Pacific Properties, L.P. ("Hudson") for the purchase of the Company's Smart Window Inserts™ ("Inserts"). Hudson is a unique provider of end-to-end real estate solutions for tech and media tenants. The PO's have a value of $85,450 and represent the first orders the Company has received prior to the launch of its Inserts. Delivery and installation are expected to begin in the fourth quarter of 2023.

On August 12, 2022, as additional consideration for the PO's, the Company issued a warrant to Hudson to purchase 5,000 shares of the Company's common stock at $45.00 per share. The warrant has a five-year life and expires on August 12, 2027.

Because Hudson is a customer, the Company accounts for the PO's and warrants under Accounting Standards Codification ("ASC") 606 *Revenue Recognition* ("ASC 606"). As the performance obligations have not yet been satisfied, the Company has not recognized any revenue during the three months ended June 30, 2023.

The Company accounts for the equity-classified warrant as consideration payable to a customer under ASC 606, as it relates to the future purchase of the Inserts. Pursuant to ASC 718 *Compensation – Stock Compensation ("*ASC 718*")*, the Company measured the fair value of the warrant using the Black-Scholes valuation model on the issuance date, with the value being recognized as a prepaid asset up to the recoverable value represented by the value of the contract. The fair value of the warrant on the issuance date totaled $161,700, and as of June 30, 2023 and December 31, 2022, the Company recorded a prepaid asset of $85,450, representing the recoverable value from the PO's, which is included in prepaid and other current assets on the accompanying consolidated balance sheet.

SLOC

In connection with the SLOC, on March 17, 2022 the Company issued a warrant for 3,333 shares of common stock with an exercise price of $120.00, and a total fair value of approximately $223,000. This amount is included in the accompanying consolidated balance sheet as deferred debt issuance costs (See Note 8).

Note 14 – 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 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.

On January 20, 2023, the Company entered into the ninth amendment to its lease with Oregon State University which reduces the amount of cubicle space from 768 square feet to 288 square feet. Effective January 20, 2023 the quarterly operating expense is $41,323 covering all utility and facility tooling costs.

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

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 paid 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 Company and the Lessor entered into the Lease Termination Agreement on April 7, 2023. The Lease Termination Agreement set forth a termination fee of $0.1 million as well as required the forfeiture of the security deposit of $0.15 million from the original lease agreement. The Company was required to vacate by April 30, 2023 as well as cover all utilities through that day.

As of June 30, 2023, the Company had operating lease liabilities of approximately $0.8 million and right-of-use assets of approximately $0.8 million, which are included in the condensed balance sheet.

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Operating leases:				
Operating lease cost	$ 126	$ 190	$ 316	$ 380
Variable lease cost	(9)	11	49	16
Operating lease expense	$ 117	$ 201	$ 365	$ 396

Supplemental cash flow information related to leases were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating cash flows - operating leases	$ 119	$ 189	$ 311	$ 341
Right-of-use assets obtained in exchange for operating lease liabilities	$ -	$ -	$ -	$ 2,336
Weighted-average remaining lease term – operating leases (in years)	1.7	3.7	1.7	3.7
Weighted-average discount rate – operating leases	12.0%	12.0%	12.0%	12.0%

As of June 30, 2023, future minimum payments are as follows (in thousands):

	Operating Leases
Six months ended December 31, 2023	$ 392
Year ended December 31, 2024	405
Year ended December 31, 2025	194
Year ended December 31, 2026	100
Year ended December 31, 2027	9
Total	1,100
Less present value discount	(261)
Operating lease liabilities	$ 839

During the three months ended June 30, 2023 and 2022, the Company recognized rent expense of approximately $0.2 million and $0.2 million, respectively. During the six months ended June 30, 2023 and 2022, the Company recognized rent expense of approximately $0.4 million and $0.2 million, respectively.

On April 27, 2023 the Company terminated the Pacific NW lease and exited the building on May 10th, 2023. As part of the termination agreement, the Company agreed to pay fees to the landlord for rent in arrears and re-tenanting costs. The fees will be covered by forfeiting Crowns $150,000 security deposit and paying an additional $115,394 for Landlord re-tenanting costs to be paid in three monthly instalments beginning April 30, 2023. As of June 30,2023 these tenanting costs remained outstanding.

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 15 – Subsequent Events

The Company has evaluated all subsequent events through the date of filing, August 24, 2023, 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 consolidated financial statements as of June 30, 2023, and events which occurred after June 30, 2023, but which were not recognized in the financial statements. The Company has determined that there were no subsequent events which required recognition, adjustment to or disclosure in the financial statements.

January Note Exchange Agreement

On July 10, 2023, the Company and one of the remaining January Investors entered into a Forbearance Agreement (the "Forbearance Agreement"), which was subsequently amended by a First Amendment to the Forbearance Agreement on July 14, 2023 (the "First Amendment"). As amended by the First Amendment, the Forbearance Agreement provides that such January Investor shall forbear the exercise of its rights and remedies due to certain events of defaults under the January Note, including payment, until December 31, 2023, in exchange for a non-refundable payment of $100,000 in the form of a promissory note due December 31, 2023 (the "New Note"), which the terms of the New Note are under negotiation, and the payment of such January Investor's attorneys' fees and related costs up to $20,000. On July, 11, 2023, such January Investor agreed with the Company to accept 152,085 shares of the Company's common stock as payment in full of their January Note, which such obligations were approximately $931,000.

On July 14, 2023, another of the remaining January Investors agreed with the Company to accept 25,143 shares of common stock as payment in full of their January Note, which such obligations were approximately $132,000.

On August 2, 2023, the Company entered into an exchange agreement with the remaining January Investor to exchange their January Note, with a balance of approximately $52,000, for 12,374 shares of common stock as payment in full of their January Note.

Following the above, there are no January Notes outstanding.

Equity Line of Credit

On July 20, 2023, the Company entered into a Common Stock Purchase Agreement (the "ELOC Purchase Agreement") with a purchaser (the "ELOC Purchaser"), whereby the Company has the right, but not the obligation, to sell to the ELOC Purchaser, and the ELOC Purchaser is obligated to purchase, up to an aggregate of $50 million of newly issued shares (the "ELOC Shares") of the Company's common stock.

The purchase price of the shares of common stock that the Company elects to sell to the ELOC Purchaser pursuant to the ELOC Purchase Agreement will be equal to ninety-seven percent (97.0%) of the lower of (i) the lowest intraday sale price of the common stock on the Company's current trading market on the applicable purchase date and (ii) the arithmetic average of the three (3) lowest closing sale prices during the ten (10) trading days immediately preceding the applicable purchase date. There is no upper limit on the price per share that the ELOC Purchaser could be obligated to pay for the common stock under the ELOC Purchase Agreement.

The Purchase Agreement prohibits the Company from directing the ELOC Purchaser to purchase any shares of our common stock if those shares, when aggregated with all other shares of our common stock then beneficially owned by the ELOC Purchaser (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and Rule 13d-3 thereunder), would result in the ELOC Purchaser beneficially owning more than 4.99% of the outstanding common stock.

As consideration for the ELOC Purchaser's irrevocable commitment to purchase shares of common stock upon the terms of and subject to satisfaction of the conditions set forth in the ELOC Purchase Agreement, concurrently with the execution and delivery of the ELOC Purchase Agreement, we agreed to issue to the ELOC Purchaser 21,840 shares of common stock (the "Initial Commitment Shares") and at the earlier of the date that is thirty days following the closing of the Company's first public offering of common stock or October 16, 2023, the Company will issue up to an additional 87,417 shares of common stock as additional commitment shares (the "Additional Commitment Shares").

Subsequent to June 30, 2023 the Company received net proceeds on sales of 283,949 shares of common stock of approximately $0.5 million (after deducting $0.03 million in commissions and expenses) at a weighted average price of $1.81 per share pursuant to the ELOC Purchase Agreement.

ATM Offering

On July 5, 2023, the Company and the Sales Agents filed the second amendment to the Sales Agreement (the "Second Amendment to the Sales Agreement"). Pursuant to the First Amendment to the Sales Agreement, the Company may from time to time, sell up to $5.1 million in Placement Shares of the Company's common stock through the Sales Agents in a continuous At-the-Market Offering (the Amended ATM Offering"). According to the First Amendment to the Sales Agreement, 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 its common stock in the Amended ATM Offering.

Subsequent to June 30, 2023 the Company received net proceeds on sales of 421,758 shares of common stock of approximately $1.59 million (after deducting $0.76 million in commissions and expenses) at a weighted average price of $3.94 per share.

The additional $2.1 million of combined ATM and ELOC equity offerings have contributed to the Company maintaining Stockholder equity levels in excess of the $2.5 million Nasdaq threshold.

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 consolidated 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 consolidated financial statements may not be comparable to the condensed financial statements of other public companies.

Management's plans and basis of presentation:

Crown Electrokinetics Corp. 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.

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.

Business Combination

On December 20, 2022, the Company incorporated Crown Fiber Optics Corp., a Delaware based entity, to own and operate its acquired business from the acquisition of Amerigen 7, LLC ("Amerigen 7) in January 2023. Crown Fiber Optics Corp. will be accounted for as a wholly- owned subsidiary of Crown Electrokinetics, Corp.

On January 3, 2023, the Company acquired certain assets related to the construction of 5G fiber optics infrastructure and distributed antenna systems from Amerigen 7 (the "Business Combination"), for cash consideration of approximately $0.65 million. The Business Combination included approximately 12 employees, customer contracts, and certain operating liabilities. The Business Combination will be accounted for as a business combination in accordance with Accounting Standards Codification 805, Business Combinations. The initial purchase price may be adjusted as needed per the terms of the arrangement agreement. The allocation of purchase price, including any fair value of the assets acquired and liabilities assumed as of the acquisition date has not been completed.

Preferred Stock

On February 1, 2023 the Company filed the first amendment to its Series D preferred stock, which modifies the conversion price of the Series D preferred stock from $78.00 to $30.00 per share.

On February 1, 2023, the Company's Board of Directors authorized 77,000 shares of Series E preferred stock with a par value of $0.0001 per share. Each share of Series E Preferred Stock is convertible into 16.67 shares of the Company's common stock at the option of the holders.

On February 2, 2023, as consideration for entering into its Line of Credit (see below), the Company issued 5,000 shares of Series E Preferred Stock as a commitment fee with a fair value of $1.45 million and issued a warrant to purchase 45,000 shares of the Company's Series E preferred stock. In addition, the Company agreed to issue an additional 5,000 shares of Series E preferred stock on both the first and second anniversary date of the Line of Credit, or 10,000 shares on the first anniversary, if the Company does not elect to extend the maturity date of the Line of Credit. The fair value of the additional 10,000 shares of Series E preferred stock on the issuance date totaled $2.9 million. The Company recorded the total fair value of $4.35 million as additional paid-in capital with the offsetting debit to deferred debt issuance costs. The deferred debt issuance costs will be amortized over the term of the Line of Credit.

The warrant to purchase 45,000 shares of the Company's Series E preferred stock is exercisable for five years at an exercise price of the greater of $30.00 per share multiplied by 16.67, and subject to adjustment under certain circumstances described in the warrant.

Common stock

Change in Authorized Shares

On December 22, 2022, the Company's Board of Directors approved increasing the Company's authorized shares of common stock from 200,000,000 to 800,000,000 shares.

Reverse Stock Split

On August 11, 2023, the Company's Board of Directors authorized a reverse stock split ("Reverse Stock Split") at an exchange ratio of one (1) share of common stock for every sixty (60) shares of common stock. The Reverse Stock Split was effective on August 15, 2023, such that every sixty (60) shares of common stock have been automatically converted into one (1) share of common stock. The Company did not issue fractional certificates for post-reverse split shares in connection with the Reverse Stock Split. Rather, all shares of common stock that were held by a stockholder were aggregated and each stockholder was 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 were rounded up to the next whole share.

The number of authorized shares of the common stock was not adjusted as a result of the Reverse Stock Split. All share and per share data in these condensed consolidated financial statements have been retrospectively adjusted to reflect the effect of the Reverse Stock Split for all periods presented. The shares of common stock retain a par value of $0.0001 per share. Accordingly, an amount equal to the par value of the decreased shares resulting from the Reverse Stock Split was reclassified from common stock to additional paid-in capital.

Warrant Exercises

During the six months ended June 30, 2023, the Company issued 106,764 shares of its common stock in connection with the exercise of 106,764 warrants, receiving net proceeds of approximately $2.06 million at a weighted average price of $19.30 per share.

During the six months ended June 30, 2023, the Company issued 2,488 shares of its common stock in connection with the exercise of 2,778 penny warrants.

ATM Offering

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 $5.0 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.

During the six months ended June 30, 2023, the Company received net proceeds on sales of shares of common stock under the Sales Agreement of approximately $2.1 million (after deducting $0.1 million in commissions and expenses) at a weighted average price of $10.38 per share.

On July 5, 2023, the Company and the Sales Agents filed the second amendment to the Sales Agreement (the “Second Amendment to the Sales Agreement”). Pursuant to the First Amendment to the Sales Agreement, the Company may from time to time, sell up to $5.1 million in Placement Shares of the Company’s common stock through the Sales Agents in a continuous At-the-Market Offering (the Amended ATM Offering”). According to the First Amendment to the Sales Agreement, 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 its common stock in the Amended ATM Offering.

Subsequent to June 30, 2023 the Company received net proceeds on sales of 545,100 shares of common stock of approximately $1.59 million (after deducting $0.76 million in commissions and expenses) at a weighted average price of $3.0479 per share.

Senior Secured Notes

On January 3, 2023, the Company received net proceeds of $1.0 million from the issuance of senior secured notes with a principal balance of $1.2 million and a debt discount of $0.2 million. The notes are non-interest bearing and matured on April 3, 2023 and subsequently were extended to May 23, 2023 incurring an additional 10% on Principal or $120,000. In connection with the senior secured notes, the Company issued 41,667 warrants to purchase shares of the Company’s common stock at an exercise price of $19.32 per share.

On May 8, 2023, the Company entered into a letter agreement (the “Extension Letter”) with the lead noteholder and collateral agent for the January Notes (the “Agent”), pursuant to which we agreed to issue, pending shareholder approval, an aggregate of 11,833 shares of Common Stock to the holders of January Notes in exchange for the extension of the maturity date thereof until May 15, 2023.

On May 15, 2023, the Agent agreed to grant us an additional extension of the maturity date thereof until May 23, 2023 in exchange for the issuance by us to the holders of January Notes, on a pro rata basis, of 66,667 shares of our Common Stock pending shareholder approval.

Subsequently, on May 23, 2023, the Agent agreed to grant us an extension of the maturity date thereof until May 31, 2023 in exchange for the issuance by us to the January Investors, on a pro rata basis, of 25,000 shares of our Common Stock pending shareholder approval.

Thereafter, on May 31, 2023, the Agent for the January Notes agreed to grant us an extension of the maturity date thereof until June 12, 2023 in exchange for the issuance by us to the January Investors, on a pro rata basis, of 100,000 shares of our Common Stock, pending shareholder approval.

With the completion of the Extension Letter and additional extensions, the Company concluded that a troubled debt restructuring did not occur, but an extinguishment of the outstanding senior secured notes occurred. Subsequent to the extinguishment, the Company concluded to account for the senior secured notes using the fair value option. The Company recorded an extinguishment loss of $2.2 million. The loss was comprised of the fair value of the shares of Common Stock on the dates issued to extend the maturity date as discussed above.

On June 4, 2023, $0.2 million of the outstanding senior secured notes was settled as part of the Exchange Agreements described below. The Company accounted for the settlement as an extinguishment that resulted in a gain being recognized of $0.1 million and resulted in $0.1 million being recorded as Series F convertible preferred stock and $0.1 million being recorded as part of the warrant liability.

On June 30, 2023, the Company and the remaining January Investors agreed to extend the maturity date of the January Notes until July 31, 2023, in exchange for 41,667 shares of our Common Stock. The Company recorded a change in fair value adjustment of $0.3 million based on the fair value of the 41,667 shares of Common Stock. As of June 30, 2023, the fair value of the outstanding senior secured notes approximated the principal balance of $1.1 million.

Line of Credit

On February 2, 2023, the Company entered into a line of credit agreement (the "Line of Credit") securing a line of credit up to $100.0 million. The Line of Credit will be used to fund expenses related to the fulfillment of contracts with customers of the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation (See Note 1). The Line of Credit expires February 2, 2024, unless the Line of Credit is extended for one or two additional years in accordance with its terms. On February 2, 2023, the Company drew down $2.0 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a Secured Promissory Note (the "2023 Note") which is due and payable 60 days from the issuance date (See Note 11).

As consideration for entering into the Line of Credit, the Company issued 5,000 shares of Series E preferred stock, and issued a warrant to purchase 45,000 shares of the Company's Series E preferred stock. Additionally, 5,000 shares of Series E preferred stock will be issued on the first and second anniversary of the effective date of the Line of Credit. However, if the Company does not elect to extend the Line of Credit for an additional one or two years, the additional 5,000 shares of Series E preferred stock will be issued immediately.

The warrant to purchase 45,000 shares of the Company's Series E preferred stock is exercisable for five years at an exercise price of $30.00 per share multiplied by 16.67, and subject to adjustment under certain circumstances described in the warrant.

On April 14, 2023, the Company entered into a First Amendment to the 2023 Note with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note balance until May 1, 2023 in exchange for 33,333 shares of the Company's common stock. The 2023 Note was further amended to accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2023 Note. The Company recorded a change in fair value adjustment of $0.2 million related to the commitment to issue 33,333 shares of the Company's common stock.

On May 1, 2023, the Company entered into a Second Amendment to the 2023 with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note balance until May 15, 2023.

On May 15, 2023, the Company entered into that certain Third Amendment to the 2023 Note with the lender, pursuant to which the lender agreed to extend the maturity date of the 2023 Note until June 7, 2023 in exchange for 4,000 shares of the Company's Series E Preferred Stock, which are convertible into 66,667 shares of the Company's common stock. The Company recorded a change in fair value adjustment of $0.7 million related to the commitment to issue 4,000 shares of the Company's Series E Preferred Stock.

On May 16, 2023, the Company made a second draw of $0.2 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a second Secured Promissory Note (the "2nd 2023 Note") which is due and payable July 16, 2023. The 2nd 2023 Note shall accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2nd 2023 Note.

On May 26, 2023, the Company made a third draw of $0.15 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a third Secured Promissory Note (the "3rd 2023 Note") which is due and payable June 2, 2023. The 3rd 2023 Note included a $200,000 commitment fee and does not bear interest. With the 3rd 2023 Note, the Company recorded a change in fair value adjustment of $0.2 million related to the commitment fee.

On May 26, 2023, the Company entered into that certain Fourth Amendment to the Convertible Promissory Note with the lender, pursuant to which the Company will issue to Holder a convertible promissory note in the principal amount of $0.15 million due June 2, 2023 in exchange for 4,000 shares of the Company's Series E Preferred Stock, which are convertible into 66,667 shares of the Company's common stock. The Company recorded a change in fair value adjustment of $0.6 million related to the commitment to issue 4,000 shares of the Company's Series E Preferred Stock.

On June 13, 2023, the Company partially redeemed the principal of the 2023 Note and fully redeemed the principal of the 2nd 2023 Note and the 3rd 2023 Note Principals in addition to all accrued interest and commitment fees owing for approximately $2.1 million. With the settlement of the 2nd 2023 Note and 3rd 2023 Note, the Company recorded a change in fair value adjustment of $0.1 million.

On June 30, 2023, the Company and the LOC Lender agreed to amend the 2nd 2023 Note and 3rd 2023 Note to extend the maturity dates of each until July 16, 2023. In connection with the amendments, the Company agreed to issue to the LOC Lender: 5,000 shares of the Company's Series E Preferred Stock, which is convertible into 83,333 shares of the Company's common stock. Additionally, the Company agreed to issue an additional 8,000 shares of the Company's Series E Preferred Stock, which is convertible into 133,333 shares of the Company's common stock, to the LOC Lender for failure to comply with a covenant in the Line of Credit, as amended. The Company recorded a change in fair value adjustment of $2.0 million related to the commitment to issue 13,000 shares of the Company's Series E Preferred Stock.

Demand Notes

Between May 17, 2023 and May 18, 2023, the Company issued secured demand promissory notes (the "Demand Notes") to certain investors (the "Demand Holders") in an aggregate principal amount equal to $229,877. The Demand Notes are due and payable at any time upon demand by a Demand Holder after the earlier of (i) the consummation of the Company's first securities offering after the issuance of the Demand Notes and (ii) July 16, 2023. The Demand Notes do not bear interest. In connection with the issuance of the Demand Notes, the Company agreed to issue to the Demand Holders an aggregate of 76,626 shares of the Company's common stock.

On May 30, 2023, the Company issued secured demand promissory notes (the "2nd Demand Notes") to certain investors (the "2nd Demand Holders") in an aggregate principal amount equal to $140,804. The 2nd Demand Notes are due and payable at any time upon demand by a 2nd Demand Holder after the earlier of (i) the consummation of the Company's first securities offering after the issuance of the 2nd Demand Notes and (ii) July 16, 2023. The 2nd Demand Notes do not bear interest. In connection with the issuance of the 2nd Demand Notes, the Company agreed to issue to the 2nd Demand Holders an aggregate of 46,935 shares of the Company's common stock.

To allocate the proceeds to May 2023 issuances, the Company allocated $0.1 million to the secured demand promissory notes and $0.3 million to the Company's common stock based on the relative fair value of the instruments. The $0.3 million debt discount is amortized over the Demand Notes' term.

October Convertible Note Repricing

On October 19, 2022, the Company entered into a Securities Purchase Agreement (the "October Purchase Agreement") with certain accredited investors as purchasers (the "October Investors"). Pursuant to the October Purchase Agreement, the Company sold, and the October Investors purchased, approximately $5.4 million in principal amount of senior secured convertible notes (the "October Notes") and warrants (the "October Warrants").

On May 12, 2023, the Company entered into letter agreements (the "Inducement Agreements") with certain of the October Investors, pursuant to which such October Investors agreed to reduce the conversion price of October Notes in an aggregate principal amount equal to $1,500,000, to $9.28 per share, which are now convertible into 161,603 shares of the Company's common stock, representing an increase of 83,849 shares in excess of the number of shares into which such October Notes were convertible prior to the Company's entry into the Inducement Agreements.

On May 17, 2023, the Company entered into Inducement Agreements with the remaining October Investors, pursuant to which such October Investors agreed to reduce the conversion price of October Notes in an aggregate principal amount equal to $1,392,657, to $10.93 per share, which are now convertible into 127,393 shares of the Company's common stock, representing an increase of 55,242 shares in excess of the number of shares into which such October Notes were convertible prior to the Company's entry into the Inducement Agreements.

The Company elected to account for the October Notes under the fair value option. For the Inducement Agreements that were entered into, the Company accounted for the change in the terms through the fair value adjustment of $2.7 million upon the settlement of $0.2 million principal balance of the October Notes on June 4, 2023 as part of the Exchange Agreements and $1.0 million principal balance of October Notes on June 21, 2023 based on the issuance of 248,981 shares of the Company's common stock.

Exchange Agreements

On June 4, 2023, the Company entered into Exchange Agreements (the "Exchange Agreements"): (i) with the October Investors for the exchange of October Notes in the aggregate principal amount of $2.6 million for 2,622 shares of the Company's newly created Series F Convertible Preferred Stock ("Series F Preferred Stock"), in the aggregate; (ii) with the January Investors for the exchange of January Notes in the aggregate principal amount of $0.2 million for 206 shares of Series F Preferred Stock, in the aggregate; (iii) with the Demand Noteholders for the exchange of Demand Notes in the principal amount of $0.6 million for 576 shares of Series F Preferred Stock, in the aggregate; and (iv) with the purchasers of the Company's Series D Preferred Stock for the exchange of 1,197 shares of Series D Preferred Stock for 1,847 shares of Series F Preferred Stock, in the aggregate.

In addition, in connection with the Exchange Agreements, the Company issued new five-year warrants to purchase an aggregate of 592,129 shares of common stock (the "Exchange Warrants") to the October Investors, the January Investors, and the purchasers of the Company's Series D Preferred Stock. The Exchange Warrants are exercisable at an exercise price of $8.868 per share of common stock, subject to certain adjustments as set forth in the Exchange Warrants. The holders may exercise the Exchange Warrants on a cashless basis if the shares of our common stock underlying the Exchange Warrants are not then registered pursuant to an effective registration statement. The Company concluded that the Exchange Warrants are liability classified.

For the October Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $1.7 million ($1.1 million for Series F Preferred Stock and $0.6 million for Warrant Liability). For the January Investors, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.13 million ($0.1 million for Series F Preferred Stock and $0.03 million for the Warrant Liability). For the Demand Note holders, the total fair value of Series F Preferred Stock and Warrant Liability issued was $0.4 million ($0.2 million for Series F Preferred Stock and $0.2 million for the Warrant Liability). For the purchasers of the Company's Series D Preferred Stock, the Company accounted for the exchange as an extinguishment of the Series D Preferred Stock. The Company recorded the total fair value of Series F Preferred Stock and Warrant Liability of $1.2 million ($0.7 million for Series F Preferred Stock and $0.5 million for the Warrant Liability) and the difference of $0.5 million with the $0.7 million carrying value of the Series D Preferred Stock as a deemed dividend and reduction to additional-paid-in-capital.

Series F-1 Preferred Stock Offering

On June 13, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement (the "Closing") the Purchasers agreed to purchase an aggregate of 3,583 shares of the Company's newly created Series F-1 Convertible Preferred Stock ("Series F-1 Preferred Stock") for an aggregate purchase price of approximately $2.3 million . In addition, in connection with the issuance of the Series F-1 Preferred Stock, the Purchasers will receive five-year warrants to purchase an aggregate of 398,377 shares of common stock (the "Series F-1 Warrants"). The Warrants will be exercisable at an exercise price of $8.994 per share of the Company's common stock, subject to certain adjustments as set forth in the Warrants. The holders may exercise the Series F-1 Warrants on a cashless basis if the shares of our Common Stock underlying the Series F-1 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the Purchasers to consummate the transactions contemplated by the Purchase Agreement are subject to the satisfaction on or prior to the Closing of customary closing conditions.

The Company allocated the proceeds of $2.3 million to the liability classified Series F-1 Warrants with a fair value of $0.9 million and the remaining proceeds of $1.4 million to the Series F-1 Preferred Stock.

Series F-2 Preferred Stock Offering

On June 14, 2023, the Company entered into a Securities Purchase Agreement (the "F-2 Purchase Agreement") with certain accredited investors (the "F-2 Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement (the "F-2 Closing") the F-2 Purchasers agreed to purchase an aggregate of 1,153 shares of the Company's newly created Series F-2 Convertible Preferred Stock ("Series F-2 Preferred Stock") for an aggregate purchase price of approximately $0.7 million. In addition, in connection with the issuance of the Series F-2 Preferred Stock, the F-2 Purchasers will receive five-year warrants to purchase an aggregate of 124,946 shares of common stock (the "F-2 Warrants"). The F-2 Warrants will be exercisable at an exercise price of $9.228 per share of common stock, subject to certain adjustments as set forth in the F-2 Warrants. The holders may exercise the F-2 Warrants on a cashless basis if the shares of our common stock underlying the F-2 Warrants are not then registered pursuant to an effective registration statement. The obligations of the Company and the F-2 Purchasers to consummate the transactions contemplated by the F-2 Purchase Agreement are subject to the satisfaction on or prior to the F-2 Closing of customary closing conditions.

The Company allocated the proceeds of $0.7 million to the liability classified the F-2 Warrants with a fair value of $0.3 million and the remaining proceeds of $0.4 million to the Series F-2 Preferred Stock.

Leases

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.

Hudson 11601 Wilshire, LLC

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.

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.

On April 27, 2023 the Company terminated the Pacific NW lease and exited the building on May 10th, 2023. As part of the termination agreement, the Company agreed to pay fees to the landlord for rent in arrears and re-tenanting costs. The fees will be covered by forfeiting Crowns $150,000 security deposit and paying an additional $115,394 for Landlord re-tenanting costs to be paid in three monthly instalments beginning April 30, 2023. As of June 30,2023 these tenanting costs remained outstanding.

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 paid 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.

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.

Master Supply Agreements

As part of the January 4, 2023, Amerigen 7 asset purchase agreement, Crown Fiber Optics acquired an MSA with Charter Spectrum which covered the five Great Lakes states. Subsequent to the acquisition, Crown has now entered into three further MSA's, with two of the agreements covering the Northwest United States and the other contemplating a Southwest United States footprint. Of the four MSA's, two are direct agreements with Internet Service Providers (ISP's) and the others with infrastructure solution providers.

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 DynamicTintTM 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, 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.

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.

Hudson Purchase Orders

On August 12, 2022, the Company entered into two Purchase Orders (PO's) with Hudson Pacific Properties, L.P. ("Hudson") for the purchase of the Company's Smart Window Inserts™ ("Inserts"). Hudson is a unique provider of end-to-end real estate solutions for tech and media tenants. The PO's have a value of $85,450 and represent the first orders the Company has received prior to the launch of its Inserts. Delivery and installation are expected to begin in in the fourth quarter of 2023.

On August 12, 2022, as additional consideration for the PO's, the Company issued a warrant to Hudson to purchase 5,000 shares of the Company's common stock at $45.00 per share. The warrant has a five year life and expires on August 12, 2027.

Results of Operations for the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022 (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	**2022**	**Change**	**2023**	**2022**	**Change**
Revenue	$ 37	$ -	$ 37	$ 59	$ -	$ 59
Cost of revenue	23	-	23	54	-	54
Gross profit	14	-	14	5	-	5
Research and development	490	1,473	(983)	1,031	2,568	(1,537)
Selling, general and administrative	4,409	3,002	1,407	7,985	6,474	1,511
Other (income) expense	9,634	2	9,632	7,808	5	7,803
Net loss	$ (14,519)	$ (4,477)	$ 10,042	$ (16,819)	$ (9,047)	$ 7,772

Revenue

Revenue is generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was $37,000 for the three months ended June 30, 2023. No revenue was recognized by the Company during the three months ended June 30, 2022.

Revenue is generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was $59,000 for the six months ended June 30, 2023. No revenue was recognized by the Company during the six months ended June 30, 2022.

Cost of Revenue

Cost of revenue is generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was $23,000 for the three months ended June 30, 2023. No cost of revenue was recognized by the Company during the three months ended June 30, 2022.

Cost of revenue is generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was $54,000 for the six months ended June 30, 2023. No cost of revenue was recognized by the Company during the six months ended June 30, 2022.

Research and Development

Research and development expenses were $0.5 million and $1.5 million for the three months ended June 30, 2023 and 2022, respectively. The decrease of $1.0 million is primarily related to a decrease in salaries and benefits of $1.0 million.

Research and development expenses were $1.0 million and $2.6 million for the six months ended June 30, 2023 and 2022, respectively. The decrease of $1.6 million is primarily related to a decrease in salaries and benefits of $1.5 million and $0.1 million of various other expenses.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses were $4.4 million and $3.0 million for the three months ended June 30, 2023 and 2022, respectively. The $1.4 million increase in SG&A expenses is primarily due to an increase in salaries and benefits for Crown Fiber Optics of $0.8 million and $0.6 million in consolidated professional fees.

Selling, general and administrative ("SG&A") expenses were $8.0 million and $6.5 million for the six months ended June 30, 2023 and 2022, respectively. The $1.5 million increase in SG&A expenses is primarily due to an increase in salaries and benefits for Crown Fiber Optics of $1.8 million and a decrease in salaries and benefits for Crown Electrokinetics of $0.3 million.

Other (Income) Expense

Other Expense was $9.6 million for the three months ended June 30, 2023 and was immaterial for the three months ended June 30, 2022. Other expense for the three months ended June 30, 2023 primarily consisted of a loss related to change in fair value of notes $6.9 million, interest expense of $2.5 million, and loss on extinguishment of debt of $2.3 million, offset by a $2.1 million gain related to the change in fair value of warrants.

Other Expense was $7.8 million for the six months ended June 30, 2023 and was immaterial for the six months ended June 30, 2022. Other expense for the six months ended June 30, 2023 primarily consisted of a loss related to change in fair value of notes $7.0 million, interest expense of $4.5 million, and loss on extinguishment of debt of $2.3 million, offset by a $7.7 million gain related to the change in fair value of warrants.

Liquidity and Going Concern

	June 30, 2023	December 31, 2022
Cash and cash equivalents at the beginning of the period	$ 821	$ 6,130
Net cash used in operating activities	(8,388)	(11,140)
Net cash used in investing activities	(1,351)	(812)
Net cash provided by financing activities	8,954	6,643
Cash and cash equivalents at the end of the period	$ 36	$ 821

The Company had an accumulated deficit of approximately $104.8 million, and a net loss of $16.8 million, and used approximately $8.4 million in net cash in operating activities for the six months ended June 30, 2023. The Company expects to continue to incur ongoing administrative and other expenses, including public company expenses.

During the six months ended June 30, 2023, the Company received net proceeds on sales of shares of common stock under the ATM Sales Agreement of approximately $2.1 million (after deducting $0.1 million in commissions and expenses) at a weighted average price of $10.38 per share.

During the six months ended June 30, 2023, in connection with its 2022 Notes, the Company entered into a warrant inducement and exercise agreement with certain holders. Under the terms of the agreement, the holders exercised 106,764 warrants with a fair value of approximately $0.76 million and the Company issued 106,764 new warrants to purchase shares of its common stock with a fair value of $1.26 million. The Company recognized a loss on extinguishment of the warrants of approximately $0.5 million which is included in other income (expense) on the accompanying condensed statement of operations.

On January 3, 2023, the Company received net proceeds of $1.0 million from the issuance of senior secured notes with a principal balance of $1.2 million and a debt discount of $0.2 million.

On February 2, 2023, the Company withdrew $2.0 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued the 2023 Note which is due and payable 60 days from the issuance date.

On April 4th the Company made a $0.3 million payment on the note balance.

On May 16, 2023, the Company made a second draw of $0.2 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a second "Secured Promissory Note (the "2nd 2023 Note") which is due and payable July 16, 2023. The 2nd 2023 Note shall accrue interest at the fifteen percent (15%) per annum from the original funding date of the 2nd 2023 Note.

On May 26, 2023, the Company made a third draw of $0.15 million under the Line of Credit. Upon drawing down on the Line of Credit, the Company issued a third "Secured Promissory Note (the "3rd 2023 Note") which is due and payable June 2, 2023. The 3rd 2023 Note included a $200,000 Commitment fee and does not bear interest.

On June 13, 2023, the Company partially redeemed the principal of the 2023 Note and fully redeemed the principal of the 2nd 2023 Note and the 3rd 2023 Note in addition to all accrued interest and commitment fees owing for approximately $2.1 million.

Between May 17, 2023 and May 18, 2023, the Company issued secured demand promissory notes (the "Demand Notes") to certain investors (the "Demand Holders") in an aggregate principal amount equal to $229,877. The Demand Notes are due and payable at any time upon demand by a Demand Holder after the earlier of (i) the consummation of the Company's first securities offering after the issuance of the Demand Notes and (ii) July 16, 2023. The Demand Notes do not bear interest.

On May 30, 2023, the Company issued secured demand promissory notes (the "2nd Demand Notes") to certain investors (the "2nd Demand Holders") in an aggregate principal amount equal to $140,804. The 2nd Demand Notes are due and payable at any time upon demand by a 2nd Demand Holder after the earlier of (i) the consummation of the Company's first securities offering after the issuance of the 2nd Demand Notes and (ii) July 16, 2023. The 2nd Demand Notes do not bear interest.

On June 13, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Series F-1 Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement the Series F-1 Purchasers agreed to purchase an aggregate of 3,583 shares of the Company's newly created Series F-1 Convertible Preferred Stock ("Series F-1 Preferred Stock") for an aggregate purchase price of approximately $2.3 million.

On June 14, 2023, the Company entered into a Securities Purchase Agreement (the "Series F-2 Purchase Agreement") with certain accredited investors (the "Series F-2 Purchasers"), pursuant to which, at the closing of the transactions contemplated by the Purchase Agreement the Series F-2 Purchasers agreed to purchase an aggregate of 1,153 shares of the Company's newly created Series F-2 Convertible Preferred Stock ("Series F-2 Preferred Stock") for an aggregate purchase price of approximately $0.7 million net of $0.1 million in legal fees.

The Company will seek to obtain additional capital through the sale of debt or equity financings or other arrangements including through its existing At-The-Market, $10 million Standing Letter of Credit, $100 million Line of Credit, and $50 million ELOC facilities to fund operations; however, there can be no assurance that the Company will be able to raise needed capital under acceptable terms, if at all. The sale of additional equity may dilute existing stockholders and newly issued shares may contain senior rights and preferences compared to currently outstanding shares of common stock. Issued debt securities may contain covenants and limit the Company's ability to pay dividends or make other distributions to stockholders. If the Company is unable to obtain such additional financing, future operations would need to be scaled back or discontinued. Due to the uncertainty in the Company's ability to raise capital, management believes that there is substantial doubt in the Company's ability to continue as a going concern for twelve months from the issuance of these condensed consolidated financial statements.

Cash Flows

Operating Activities

For the six months ended June 30, 2023, net cash used in operating activities was $8.4 million, which primarily consisted of our net loss of $16.8 million, adjusted for non-cash expenses of $9.5 million, which primarily consisted of a amortization of $5.1 million, loss on extinguishment of debt and warrant liabilities of $2.8 million, other expenses of $1.2 million primarily consisted of expenses incurred in stock issuance commitments, stock-based compensation of $0.3 million, depreciation and amortization of $0.4 million, offset by a 0.7 million gain related to the change in fair value of warrants and debt. The net change in operating assets and liabilities was $1.0 million.

For the six months ended June 30, 2022, net cash used in operating activities was $5.9 million, which primarily consisted of our net loss of $9.0 million, adjusted for non-cash expenses of $3.1 million which primarily consisted of stock-based compensation expenses totaling $2.5 million, and depreciation and amortization of $0.2 million, The net change in operating assets and liabilities was $0.05 million, primarily consisting of an increase in accounts payable of $0.4 million, offset by decreases in accrued expenses of $0.2 million and our lease liability of $0.15 million.

Investing Activities

For the six months ended June 30, 2023, net cash used in investing activities was approximately $1.4 million, consisting of cash paid for the acquisition of Amerigen 7 of approximately $0.6 million, and purchases of equipment totaling $0.7 million.

For the six months ended June 30, 2022, net cash used in investing activities was approximately $1.6 million, consisting of $1.5 million for the purchase of our HP patents and $0.1 million for the purchase of equipment.

Financing Activities

For the six months ended June 30, 2023, net cash provided by financing activities was $8.9 million, consisting of net proceeds received from the issuance of common stock in connection with our ATM agreement totaling $2.2 million, proceeds from the exercise of common stock warrants of $2.1 million, net proceeds from the issuance of our 2023 Note (in connection with the Line of Credit) of $2.4 million proceeds from the issuance of senior secured notes of $0.9 million, proceeds from the issuance of our Demand Notes of $0.4 million, proceeds from the issuance of our Series F-1 preferred stock of $2.3 million, and proceeds from the issuance of our Series F-2 preferred stock of $0.8 million net of $0.1 million fees.

For the six months ended June 30, 2022, net cash provided by financing activities was $1.1 million, related to the proceeds from a deposit for the Series D preferred 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 fiber splicing services as required based on short-term work orders as work is assigned by the Customer. We are required to complete the description of work described in the work order and test the service provided prior to any recognition of revenue and invoicing. The short-term work orders are for very specific performance obligations which are performed from start to finish within two weeks or less, and more often, within one week. We are required to adhere to the rules and regulations that are outlined in the Agreement between the Company and the Customer.

Cost for the work performed is outlined in the individual work orders based on the detailed description of work to be performed. All of the revenue is recognized immediately upon completion of the work in each work order. A 5% retainage will be withheld by the Customer upon payment of invoices and will be paid to the Company within one year after termination of the contract. The retainage can be utilized by Customer for any claims that may arise after work is completed up through one year after completion.

Revenue recognized during the six months ended June 30, 2023 was generated by the Company's wholly-owned subsidiary, Crown Fiber Optics Corporation, and was immaterial for the six months ended June 30, 2023. No revenue was recognized by the Company during the six months ended June 30, 2022.

Segment and Reporting Unit Information

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is determined to be the CODM. On January 3, 2023 we acquired Crown Fiber Optics, Corp and are currently in the process of integrating this new business line including identifying leadership, and aligning management reporting and allocation methodologies. We are assessing our current segment structure in conjunction with the integration efforts.

Business Combinations

We account for business combinations using the guidance provided by Accounting Standards Codification ("ASC") 805, *Business Combinations*. ASC 805 requires us to use the acquisition method of accounting by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any non-controlling interest in the acquired business, measured at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the aforementioned amounts.

Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets. Although we believe the assumptions and estimates made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain intangible assets we have acquired include future expected cash flows from customer contracts. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results. The initial purchase price may be adjusted as needed per the terms of the arrangement agreement. The allocation of purchase price, including any fair value the assets acquired and liabilities assumed as of the acquisition date has not been completed.

Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Deferred Debt Issuance Costs

We account for debt issuance costs related to our Line of Credit as a deferred asset which is amortized over the life of the Line of Credit. Since we have elected the fair value option for our convertible notes (see below), upon a draw down, a portion of the deferred asset balance will be amortized to other expense. On the issuance date of our Line of Credit, since no loan amounts are drawn down, the issuance of the Series E preferred shares and the warrant to purchase Series E preferred shares are recorded as a deferred asset.

Goodwill

We perform a goodwill impairment analysis on October 1st of each year. When conducting our annual goodwill impairment assessment, we initially perform a qualitative evaluation to determine if it is more likely than not that the fair value of our reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill impairment test.

Convertible Notes

In accordance with Accounting Standards Codification 825, *Financial Instruments* (“ASC 825”), we have elected the fair value option for recognition of our convertible notes. In accordance with ASC 825, we recognize these notes at fair value with changes in fair value recognized in the statements of operations. The fair value option may be applied instrument by instrument, but it is irrevocable. As a result of applying the fair value option, direct costs and fees related to the convertible notes were recognized in other expense. The Company will include the interest expense as a component of the notes fair value.

Warrants

We account for certain common stock warrants outstanding as a liability at fair value and adjusted the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in our statements of operations. The fair value of the warrants issued by us has been estimated using the Black Scholes Methodology.

Fair Value of Common Stock

Stock-based compensation is measured at the grant date for all equity-based awards made to employees and nonemployees based on the estimated fair value of the awards. Stock-based compensation expense is recognized on a straight-line basis over the period the employee or non-employee is required to provide service in exchange for the award, which is generally the vesting period. We recognize forfeitures as they occur.

Critical accounting policies and significant judgments and estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our condensed consolidated 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 consolidated financial statements for a description of our other significant accounting policies.

Recent accounting pronouncements

See Note 3 to our condensed consolidated financial statements for a description of recent accounting pronouncements applicable to our 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 consolidated 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 June 30, 2023, 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 June 30, 2023 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

3.1	Certificate of Amendment to Certificate of Incorporation, as amended, filed with the Secretary of State of Delaware (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on June 15, 2023).
3.2	Series F-1 Certificate of Designations filed with the Secretary of State of Delaware (incorporated by reference to Exhibit 3.2 to the registrant's Form 8-K filed on June 15, 2023).
3.3	Series F-2 Certificate of Designations filed with the Secretary of State of Delaware (incorporated by reference to Exhibit 3.3 to the registrant's Form 8-K filed on June 15, 2023).
3.4	Certificate of Amendment to Amended and Restated Certificate of Incorporation, as amended, filed with the Secretary of State of Delaware on August 11, 2023 (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on August 14, 2023).
4.1	Form of Warrant (incorporated by reference to Exhibit 4.1 to the registrant's Form 8-K filed on June 15, 2023).
4.2	Form of F-2 Warrant (incorporated by reference to Exhibit 4.2 to the registrant's Form 8-K filed on June 15, 2023).
10.1	Form of Inducement Agreement by and between the Company and the October Investors (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on May 18, 2023).
10.2	Form of LOC Note Amendment by and between the Company and Eleven Advisors LLC (incorporated by reference to Exhibit 10.2 to the registrant's Form 8-K filed on May 18, 2023).
10.3	Form of Demand Note issued by the Company to the Holder (incorporated by reference to Exhibit 10.3 to the registrant's Form 8-K filed on May 18, 2023).
10.4	Form of Demand Note issued to the Company to the Demand Holders (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on June 6, 2023).
10.5	Form of May Note issued by the Company to the May Holder (incorporated by reference to Exhibit 10.2 to the registrant's Form 8-K filed on June 6, 2023).
10.6	Form of Securities Purchase Agreement, dated June 13, 2023, between the Company and the Purchasers (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on June 15, 2023).
10.7	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the registrant's Form 8-K filed on June 15, 2023).
10.8	Form of Securities Purchase Agreement, dated June 14, 2023, between the Company and the F-2 Purchasers (incorporated by reference to Exhibit 10.3 to the registrant's Form 8-K filed on June 15, 2023).
10.9	Forbearance Agreement by and between the Company and a January Investor, dated July 10, 2023 (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on July 14 2023).
10.10	First Amendment to Forbearance Agreement by and between the Company and a January Investor, dated July 14, 2023 (incorporated by reference to Exhibit 10.2 to the registrant's Form 8-K filed on July 14 2023).
10.11	Common Stock Purchase Agreement by and between the Company and the ELOC Purchaser, dated July 20, 2023 (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on July 24, 2023).
10.12	Registration Rights Agreement by and between the Company and the ELOC Purchaser, dated July 20, 2023 (incorporated by reference to Exhibit 10.2 to the registrant's Form 8-K filed on July 24, 2023).
10.13	Exchange Agreement by and between the Company and a January Investor, dated August 2, 2023 (incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on August 7, 2023).
31.1	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.
31.2	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.
32.1	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.
32.2	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.
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.

Crown Electrokinetics Corp.

Dated: August 24, 2023	/s/ Doug Croxall Doug Croxall Chief Executive Officer and Principal Executive Officer
Dated: August 24, 2023	/s/ Joel Krutz Joel Krutz Chief Financial Officer and Principal Financial Officer

Exhibit 31.1

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 June 30, 2023;

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: August 24, 2023

/s/ Doug Croxall

Doug Croxall
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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 June 30, 2023;

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: August 24, 2023

/s/ Joel Krutz

Joel Krutz
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 June 30, 2023 (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 24, 2023

/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.

Exhibit 32.2

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 June 30, 2023 (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 24, 2023

/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.